

# **ENFORCEMENT OF FEDERAL ANTI-FRAUD LAWS IN FOR- PROFIT EDUCATION**

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## **HEARING**

BEFORE THE

**COMMITTEE ON EDUCATION  
AND THE WORKFORCE  
U.S. HOUSE OF REPRESENTATIVES**

ONE HUNDRED NINTH CONGRESS

FIRST SESSION

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March 1, 2005

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## C O N T E N T S

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	Page
Hearing held on March 1, 2005 .....	1
Statement of Members:	
Boehner, Hon. John A., Chairman, Committee on Education and the Workforce .....	2
Prepared statement of .....	3
Hinojosa, Hon. Ruben, a Representative in Congress from the State of Texas, Prepared statement of .....	72
Miller, Hon. George, Ranking Member, Committee on Education and the Workforce .....	4
Porter, Hon. Jon C., a Representative in Congress from the State of Nevada, Prepared statement of .....	75
Waters, Hon. Maxine, a Representative in Congress from the State of California .....	7
Prepared statement of .....	9
Statement of Witnesses:	
Carter, Thomas A., Deputy Inspector General, U.S. Department of Education, Washington, DC .....	31
Prepared statement of .....	32
Dorsey, Paula, Former Director of Admissions, Bryman College, Reseda, CA .....	38
Prepared statement of .....	40
Glakas, Nick, President, Career College Association, Washington, DC .....	42
Prepared statement of .....	45
Rhodes, David, President, The School of Visual Arts, New York, NY .....	27
Prepared statement of .....	29
Additional materials supplied:	
Fager, Jeff, Executive Producer, 60 Minutes, Letter submitted for the record .....	70



## **ENFORCEMENT OF FEDERAL ANTI-FRAUD LAWS IN FOR-PROFIT EDUCATION**

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**Tuesday, March 1, 2005**  
**U.S. House of Representatives**  
**Committee on Education and the Workforce**  
**Washington, DC**

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The Committee met, pursuant to call, at 2:10 p.m., in room 2175, Rayburn House Office Building, Hon. John A. Boehner (Chairman of the Committee) presiding.

Present: Representatives Boehner, Petri, McKeon, Castle, Johnson, Biggert, Kline, Price, Fortuno, Drake, Miller, Kildee, Andrews, Scott, Hinojosa, McCarthy, Tierney, Wu, Van Hollen, and Bishop.

Staff Present: David Cleary, Professional Staff Member; Kevin Frank, Professional Staff Member; Alison Griffin, Professional Staff Member; Sally Lovejoy, Director of Education and Human Resources Policy; Alexa Marrero, Press Secretary; Greg Maurer, Coalitions Director; Catharine Meyer, Legislative Assistant; Krisann Pearce, Deputy Director of Education and Human Resources Policy; Amy Raaf, Professional Staff Member; Deborah L. Samantar, Committee Clerk/Intern Coordinator; Dave Schnittger, Director of Communications; Todd Shriber, Communications Assistant; Ellynne Bannon, Minority Legislative Associate/Education; Tom Kiley, Press Secretary; Ricardo Martinez, Minority Legislative Associate/Education; Alex Nock, Minority Legislative Associate/Education; Joe Novotny, Minority Legislative Assistant/Education; and Mark Zuckerman, Minority General Counsel.

Chairman BOEHNER. The Committee on Education and the Workforce will come to order, a quorum being present.

The Committee will be holding this hearing today to hear testimony on enforcement of Federal antifraud laws in for-profit education. Under the Committee rules, opening statements are limited to the Chairman and Ranking Member. Therefore, if further Members have opening statements, they can be submitted for the record.

And, with that, I would ask unanimous consent that the hearing record will remain open for 14 days to allow Members' statements and other extraneous material referenced during the hearing today to be submitted for the official hearing record.

Without objection, so ordered.

(1)

**STATEMENT OF HON. JOHN A. BOEHNER, CHAIRMAN,  
COMMITTEE ON EDUCATION AND THE WORKFORCE**

I want to welcome everyone today to our hearing.

One of the chief responsibilities for this Committee in the 109th Congress will be the renewal of the Higher Education Act, the Federal law enacted 4 decades ago for the purpose of ensuring that a college education is within reach for every American student who strives for it.

The face of higher education is changing today, because our economy itself is changing. Higher education has never been more important than it is today. More students than ever are seeking a college degree, and there has been a dramatic increase in the number of nontraditional students pursuing a college education. Many of these students are minorities, working parents, and first-generation college students, or students who do not have the ability or means to attend a traditional 4-year college.

Traditional colleges and universities have not been able to meet this growing demand or respond to the needs of these students. Proprietary schools, or "for-profit" schools, have been stepping in to fill this void. There are thousands of proprietary schools across the United States, and they are playing a critical role in providing college access for some of our Nation's most vulnerable students. And thus, they are playing a critical role in carrying out the mission of the Higher Education Act.

Students who attend proprietary schools are not treated fairly under current Federal higher education law. As this Committee learned in a hearing last year, proprietary school students and the institutions they attend are essentially treated like second-class citizens under outdated current law. New York has taken action to address this inequity at the State level, and I expect more States will follow suit. And my colleague, Buck McKeon, and I have introduced legislation at the Federal level that would do the same.

It is also necessary for us to ask whether proprietary school students are being adequately protected by Federal law against fraud and abuse, and to examine the steps the Bush administration has taken to enforce those laws. When we talk about college access, we mean access to quality education. All students should be able to have faith in the institution they attend. All parents should be able to trust that the schools receiving their hard-earned money are delivering quality in return. We expect all institutions of higher learning, nonprofit and for-profit, to abide by this same standard. When parents and students are misled or willfully denied the information they need to make informed decisions when they invest in a college education, it is a breach of trust.

As Congress reauthorizes the Higher Education Act, our first priority has to be providing access and fairness to low- and middle-income students and families struggling with the high price of college. This means holding nonprofit schools accountable for the role they are playing in the hyperinflation of college costs. It means providing fairness for students at proprietary schools. And it means ensuring that the Federal antifraud laws to protect students are both adequate and fully enforced.

In that light, we are going to look today specifically at the for-profit sector. I think what we want to know is what laws exist to

protect proprietary school students against fraud. How are they being enforced? Are any of these laws outdated to the point where they are now hurting the students they were enacted to protect? Do we have different standards for proprietary schools than we have for nonprofit schools? Are there legal safeguards and standards in for-profit education that ought to be considered in the nonprofit sector, where the vast majority of Federal higher education resources are being spent?

I want to thank all of our witnesses for their willingness to be here today to provide insights on these questions, including our colleague from California, Ms. Waters.

We cannot condemn an entire sector for the errors of a relatively small number of bad actors, but we cannot turn a blind eye to those errors, either. This is the case in the for-profit education industry. It is also the case in the nonprofit education industry and, for that matter, in other education programs like Head Start. Either extreme would hurt vulnerable students and parents, the very people the laws we oversee were intended to help.

We are holding this hearing today to ensure that this Committee produces legislation in the future that strikes the right balance for American students and families that we were all sent here to represent.

With that, I would like to yield to my friend and colleague, the gentleman from California, Mr. Miller.

[The prepared statement of Chairman Boehner follows:]

**Statement of Hon. John A. Boehner, Chairman, Committee on Education and the Workforce**

Good afternoon. Welcome everyone.

One of the chief responsibilities for this committee in the 109th Congress will be the renewal of the Higher Education Act, the federal law enacted four decades ago for the purpose of ensuring that a college education is within reach for every American student who strives for it.

The face of higher education in America is changing today, because our economy itself is changing. Higher education has never been more important than it is today. More students than ever are seeking a college degree. There has been a dramatic increase in the number of non-traditional students pursuing a college education. Many of these students are minorities, working parents, first-generation college students, or students who do not have the ability or means to attend a traditional four-year college.

Traditional colleges and universities have not been able to meet this growing demand or respond to the needs of these students. Proprietary schools, or "for-profit" schools, have been stepping in to fill this void. There are thousands of proprietary schools across the United States, and they're playing a critical role in providing college access for some of our nation's most vulnerable students. And thus, they're playing a critical role in carrying out the mission of the Higher Education Act.

Students who attend proprietary schools are not treated fairly under current federal higher education law. As this Committee learned in a hearing last year, proprietary school students and the institutions they attend are essentially treated like second-class citizens under outdated current law. New York has taken action to address this inequity at the state level. I expect more states will follow suit, and my colleague Buck McKeon and I have introduced legislation at the federal level that would do the same.

It's also necessary for us to ask whether proprietary school students are being adequately protected by federal law against fraud and abuse, and to examine the steps the Bush administration has been taking to enforce those laws.

When we talk about college access, we mean access to a quality education. All students should be able to have faith in the institution they attend. All parents should be able to trust that the schools receiving their hard-earned money are delivering quality in return. We expect all institutions of higher learning—nonprofit and for-profit—to abide by this standard. When parents and students are misled, or will-

fully denied the information they need to make informed decisions when they invest in a college education, it is a breach of trust.

As Congress reauthorizes the Higher Education Act, our first priority has to be providing access and fairness for low and middle-income students and families struggling with the high price of college. This means holding “nonprofit” schools accountable for the role they’re playing in the hyperinflation of college costs. It means providing fairness for students at proprietary schools. And it means ensuring that federal anti-fraud laws to protect students are both adequate and fully enforced.

In that light, we’re going to look today specifically at the for-profit sector—in part, because of a recent report by the CBS program “60 Minutes” on alleged incidents of fraud in the for-profit education industry. We want to know:

- What laws exist to protect proprietary school students against fraud?
- How are they being enforced?
- Are any of these laws outdated, to the point where they’re now hurting the students they were enacted to protect?
- Do we have different standards for proprietary schools than we have for “non-profit” schools?
- Are there legal safeguards and standards in for-profit education that ought to be considered for the non-profit sector, where the vast majority of federal higher education resources are being spent?

I want to thank all of the witnesses for their willingness to be here today to provide insights on these questions, including our colleague from California, Ms. Waters.

We can’t condemn an entire sector for the errors of a relatively small number of bad actors, but we can’t turn a blind eye to those errors either. This is the case in the for-profit education industry. It’s also the case in the nonprofit education industry—and, for that matter, in other education programs like Head Start. Either extreme would hurt vulnerable students and parents—the very people the laws we oversee were created to help. We are holding this hearing today to ensure this committee produces legislation in the future that strikes the right balance for the American students and families we were sent here to represent.

With that, I would turn to the senior Democratic member of our committee, Mr. Miller, for any comments he may have.

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#### **STATEMENT OF HON. GEORGE MILLER, RANKING MEMBER, COMMITTEE ON EDUCATION AND THE WORKFORCE**

Mr. MILLER. Thank you, Mr. Chairman, for agreeing to hold this hearing on abuse in the student aid program and the proposed changes to the College Access and Opportunity Act, H.R. 609, which would change some of those safeguards.

I would like to begin by welcoming to the Committee our colleague, Maxine Waters, from Los Angeles. She has represented the South Central Los Angeles, the Westchester community with Gardena, Hawthorne, Inglewood, and Lawndale, for the better part of 2 decades and she serves as chief deputy whip of the Democratic Party.

During her 25 years of service, she has been on the cutting edge of controversial issues, and it is no surprise to see her here today. When I saw the “60 Minutes” piece, my mind immediately went to Maxine, because we had been in this fight a decade ago, and she, even before then, was trying to assure that fraudulent practices would not take their toll on young people who were seeking to make the most of their lives by participating in higher education and continuing education. And she, in fact, wrote State legislation to deal with this issue. So I think the Committee will be enriched by her testimony and her participation today.

There are two basic goals that we should focus on as we reauthorize the Higher Education Act. First, we should ensure that students are not prevented from getting a high-quality college education because they cannot afford one.

A basic sense of fairness says that students should not be denied the opportunities that higher education brings just because they cannot afford to pay for college.

But it is not only about fairness. Our Nation's economy depends more each year on having a highly skilled workforce to compete in the global economy, and higher education is a key ingredient to creating that workforce.

Second, we should ensure that tax dollars are invested wisely. Tax dollars should be used to help students pay for college, not to boost companies' bottom lines in the for-profit sectors. Unfortunately, H.R. 609, while it includes some good provisions, does not do enough either to make college more affordable or to eliminate the waste and abuse issues.

On the issues before us today, safeguarding against fraud and abuse by for-profit colleges, H.R. 609 takes us further away from the goal of reducing waste. A recent "60 Minutes" piece, "For-profit Colleges: An Expensive Lesson," documented aggressive and misleading recruitment practices in certain for-profit colleges. As you correctly pointed out, this is not to provide for the indictment of all of the colleges in this sector, because they do provide an important and necessary resource for higher education opportunities for so many of America's students.

Specifically, the report documented how certain colleges owned by Career Education Corporation misrepresented graduation rates, promised inflated salaries to prospective enrollees, enrolled students who did not have the ability to complete casework, and focused heavily on boosting enrollment numbers and Federal student aid payments. These actions represent a disservice to students, taxpayers, and those colleges that play by the rules and provide a quality education on a fair basis.

Last year, the Federal Government distributed more than \$80 billion in student aid of which 70 percent was in student loans. Students at both for-profit and nonprofit schools are eligible for these funds, and for-profit institutions have participated in these programs for more than 30 years. For-profit colleges have been the forerunners of many innovations such as online courses, accelerated course time, and flexible scheduling for nontraditional students, and have helped increase access to higher education for many, many students.

However, the same business model that allows for-profit schools to innovate can also breed the types of rampant fraud and abuse that occurred in the 1980's and the early 1990's, without sensible safeguards. We must take reports of fraud and abuse in the student aid program seriously.

Congressional hearings in the 1990's found similar problems to those raised in numerous recent reports such as the "60 Minutes" segment, primarily at for-profit colleges participating in the Federal student aid program. The abuses included disbursing funds to ineligible students, falsifying and forging documents, setting tuition prices at artificially high levels, and providing inadequate instruction.

None of us on this Committee can support these practices. That was a decade ago.

Today we are holding a hearing, unfortunately on some of the repeats of those practices by some institutions. We have got to make sure that the taxpayer dollars are, in fact, used for the purposes for which they were provided, and that we do not end up simply saddling well-intentioned, well-motivated students with debt because they did not get the opportunity that was represented to them and promised to them.

When these laws have been assertively enforced, we have seen that they do stem fraud and abuse in the student aid programs. However, there is some question as to whether or not these laws are being adequately enforced and whether or not the current institutional integrity provisions in the Higher Education Act are sufficient.

In addition, although sufficient problems exist, many protections have been substantially weakened and considered for repeal. We must balance flexibility and innovation in higher education against the dangers of repeating past abuses.

That is the goal of this hearing. I hope it is the goal of the oversight and of the testimony that we receive; and as we proceed with markup of the higher education bill, I hope that these hearings will turn out to be a valuable resource to us so that we can meet those twin goals of providing affordable education and access to that affordable education, and protecting the taxpayers at the same time.

Mr. Chairman, again, my thanks to you for your timeliness in holding this hearing.

Chairman BOEHNER. We welcome all of our witnesses today. Mr. Miller has already introduced our first witness, Ms. Waters. Let me yield to the gentlewoman from New York, Ms. McCarthy, to introduce our second witness today.

Mrs. McCARTHY. Thank you, Mr. Chairman.

Mr. Chairman, I would like to introduce Mr. Rhodes. He is currently serving his 27th year as the President of the School of Visual Arts, located in New York City, New York.

The School of Visual Arts began as a trade school in 1947 with three instructors and 35 students, and has grown into a multiple discipline institution with a faculty of more than 800 that currently serve an undergraduate enrollment of 3,092. In 1972, the New York Board of Regents first authorized SVA to confer fine arts bachelor's degrees. Since then, the SVA has been widely recognized as one of the finest art schools in the country for its innovative programs.

In addition, President Rhodes serves as a commissioner for the Commission on Higher Education of the Middle States Association of Colleges and Schools.

Mr. Rhodes, welcome to the Committee, and thank you for being here.

Chairman BOEHNER. Thank you, Mrs. McCarthy.

Thirdly, we will hear from Mr. Thomas Carter. Mr. Carter currently serves as the Deputy Inspector General for the Department of Education. From 1985 to 2000, Mr. Carter served in a variety of staff and management positions at the Department that included responsibilities for special studies of Department programs and operations, internal evaluations of OIG operations, development of

audit policies and procedures, as well as strategic and annual work planning. We thank you for being here.

We will then hear from Ms. Paula Dorsey. Ms. Dorsey joins us today having recently served as the former Director of Admissions for Bryman College located in California. Established in 1960, Bryman College was created with a mission to provide quality, job-relevant career training designed to prepare men and women of all ages to enter, prosper in, and meet the needs of the employment community.

Lastly, we will hear from Mr. Nick Glakas. Mr. Glakas currently serves as President of the Career College Association, a voluntary membership organization of private, postsecondary schools, institutes, colleges, and universities that provide career-specific educational programs. Prior to joining CCA, Mr. Glakas spent nearly 10 years as an executive with the ITT Corporation, and most recently as Senior Vice President for Government Affairs here in Washington.

As I am sure someone has explained to all of you, we allow 5 minutes for each of our witnesses to testify, and we would all hope that you could do that.

With that, Ms. Waters, I am glad you are here.

**STATEMENT OF THE HON. MAXINE WATERS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA**

Ms. WATERS. Thank you very much.

Chairman Boehner and Ranking Member Miller, I thank you for calling this hearing today. And to all of the Members of the Committee, I am very appreciative for the opportunity to testify before you. I have prepared 55 pages of testimony, and I have tried to condense that down into the 5-minute time that is allotted.

So let me start with my testimony, but you have that 55 pages before you.

The for-profit trade schools, or rather, the students they enroll, have been a matter of deep concern to me for more than 20 years. These proprietary schools talk in terms of providing minorities with opportunities and talk about discrimination. I take umbrage when these tactics are employed. African Americans and Latinos, since the era of reconstruction and the arrival of Cortez, respectively, have been offered these same deceptive opportunities. These schools are harming my community.

The growth default rate for proprietary schools is 44.6 percent for the period 2000 to 2002, so nearly half of the students do not make enough to make the minimum loan payment. There is no statute of limitations for the collection of student loans from defaulting students, so these loans never go away. Former students cannot discharge their loans in bankruptcy when they cannot pay. Removing the 90/10 protection will allow more of my constituents to be ripped off.

The provisions of H.R. 507, or whatever the number is now, easing the restrictions on distance learning and including proprietary institutions within the definition of an institution of higher education must be rejected. It is time we thought about the students, not just the schools' bottom lines.

The schools with the heaviest dependence on financial aid have the highest default rates and the lowest completion and placement rates for students. What point is there in allowing these schools more access to low-income minority students if the students do not get decent-paying jobs?

For the 2-year courses, only one-third of students complete the course. Often, the school's poor completion rates are not disclosed or grossly misrepresented.

At the Katharine Gibbs School, the "60 Minutes" producer asked the completion rate and was told that it was 89 percent, when it was actually 29 percent, a 60 percent error. The graduates often find no jobs, or only low, low-paying jobs. Some of these fields of study like cosmetology and fashion have more applicants than jobs. I do not want these students to pay \$30,000 to \$50,000 for a fashion course of study and end up folding T-shirts at The Gap, as disclosed on the "60 Minutes" segment.

The letters I have received since the "60 Minutes" story reinforce my beliefs. An employee of American Intercontinental University, a sister school of Brooks College in Long Beach, California, featured in the "60 Minutes" story, provided this, and I quote: "we have been raising issues with these questionable practices ever since CEC bought AIU 3 years ago. We saw the demographic shift to primarily low-income, D-average-and-below students who were ill-prepared to commit to the structure, rigors, and requirements of a design college. They were taking out huge Federal loans to pay for their tuition and then, because they had no funds for supplies, transportation, or even food, would fail.

I have a deep-seated moral problem with lying to them in a variety of ways. For example, they will be able to get a B.A. degree in 2 years, they will be able to get a job with J-Lo designing, they will be able to get a job with Spielberg, and the list goes on and on and on. In these schools, often the number of admissions representatives or recruiters dwarfs the number of full-time faculty. The amount spent on advertising, lead creation, recruiting, and admissions representatives far exceeds the salaries paid to faculty.

The entrance standards at these proprietary trade schools are exceedingly low, usually 2.0 grade point average for the 2-year courses. But low-performing students and those in need of remedial education are led into these programs regardless of their grades.

Jennifer McDonald, the Associate Producer at "60 Minutes," could not disqualify herself for admission by low grades, drug addiction, or failing the entrance test. Those who complete the course do not necessarily fare any better, because they have a bigger debt to pay.

At Brooks College in Long Beach, the data showed that the average starting wage for fashion merchandising, a 2-year course, is barely above minimum wage. The most common job title for fashion merchandising is sales associates. But, the admission representatives featured on "60 Minutes" indicated they would be making a starting salary of \$35,000 to \$40,000 a year.

The school's placement rate is often misstated to get the student to enroll. The recruiter for Brooks College in Long Beach said, and I quote, "We are telling you that you are going to have a 95 percent change, that you are going to have a job paying \$35,000 to \$40,000

a year by the time you are done in 18 months," says Shannon. We later found it was not true at all.

Sadly, more than a decade after the passage of additional student and financial protections, many of the same problems persist. Yet, the U.S. Department of Education does little or nothing in following up on student complaints, whistle-blower complaints and lawsuits which expose wrongdoing by the schools.

The students going to proprietary schools need additional protection. These families will be squeezed to the breaking point when the Department of Education tries to collect on the \$40,000 in loans, when the family member did not get a job and has barely enough to feed and house the family.

These schools are using mostly African American and Latino students as mere ciphers to get the highest level of financial aid. They want my constituents and others like my constituents around the country merely to feed their bottom line without regard to the misery that most certainly will follow.

We must not permit them to do so, and I look forward to the Committee's questions. Thank you.

Chairman BOEHNER. Thank you.

[The prepared statement of Ms. Waters follows:]

**Statement of Hon. Maxine Waters, a Representative in Congress from the State of California**

*MY INTEREST IN PROPRIETARY TRADE SCHOOLS*

I want to speak to you about the necessity of keeping current student protections in federal law, and insisting the Department enforce current law. A host of new protections are needed, but that is for another day.

The for-profit trade schools, or rather, the students they enroll, have been a matter of deep concern for me for more than twenty years. These proprietary schools talk in terms of providing minorities with opportunities, and cloth themselves with terms of the civil rights struggle.

I take umbrage when these tactics are employed by the for-profit trade schools. African-Americans and Latino's, since the era of reconstruction, and the arrival of Cortez, respectively, have been offered these same deceptive opportunities. These schools are continually harming my community.

I have always supported job programs and job preparedness programs in my district. I often go to graduation ceremonies or completion celebrations to provide support for the efforts of young people who were looking for a chance at a better life and employment training.

I had GED courses conducted in my office so that my constituents could pass the math portion of the GED to get into the construction training programs. The 17-30 program in my district got former gang members back into a school or a training program. I have spoken at graduation ceremonies many times at the Maxine Waters Employment Preparation Center, part of LA Unified Adult Education Program.

And with respect to all these groups of young people and all these events, there was one thing in common—most of the participants had been ripped off by a for-profit trade school.

Many of these students had families, and could not pursue further education or training because they had defaulted on previous student loans used to attend a trade school, and thus did not qualify for any current financial aid (including Pell Grants), which they needed to support themselves while attending Community College to obtain training.

At one graduate ceremony at the Employment Preparation Center, I asked how many of the graduates had been ripped off by a trade school, and all hands but one went up. I do not want this pattern to extend into the indefinite future.

Removing the 90/10 protection will have severe consequences in my district. The provisions of HR 507 easing the restrictions on distance learning, and including proprietary institutions within the definition of "an institution of higher education"

must be rejected. It is time we thought about the students, not just the school's bottom line. These schools had a gross default rate of 44.6% for the period 2000–2002.<sup>1</sup>

#### *NO STATUTE OF LIMITATIONS*

In this country, there is no statute of limitations for murder, and for the collections of student loans from defaulting students. When these students are suffering under a crushing student debt burden, because the promised jobs were nowhere to be found, they learn that these loans cannot be discharged in bankruptcy (as one of the victims on the Sixty Minutes program suggested as her only option).

So, the government has insulated itself from the consequences of these schools' deception, and the disastrous consequences. Don't these ripped-off students deserve some consideration and protection?

The reason that I am so strongly support the 90/10 rule, formerly 85/15 (which should actually have a larger number at the bottom), is because I think my constituents and other low income persons and minorities are ill served by the for-profit trade schools and need even more protection from the false sales pitches of many of these for-profit trade schools.

I am not saying that all the for-profit trade schools are bad, but enough of them are, to necessitate the need for student protections. Before my office burned down, I had a pile of trade school complaints two feet thick, and nothing has changed.

#### *RATIONALE FOR THE 90/10 RULE*

The 90/10 rule, previously 85/15, was passed to combat rampant fraud, misrepresentations, and exploitative practices in the for-profit vocational education industry. Those practices continue.

Keeping the 90/10 rule or increasing the denominator would give schools the incentive to raise the quality of the education to attract a broad range of students, instead of tailoring the education to the amount of federal funds available to the poorest students.

Eliminating the 90/10 rule would allow problem for-profit trade schools to more easily continue to deceive and mislead low income students (often minorities) at a time when there are few other safeguards.

The 1997 GAO report titled, "Poorer Students Outcomes at Schools that Rely More on Federal Student Aid<sup>2</sup>," provides support for the 90/10 rule. The rationale behind the 85/15 or the 90/10 rule is that schools providing a quality education should be able to attract a reasonable percentage of their revenue from sources other than title IV funds.

According to Mr. Moore, CEO of Corinthian, in his testimony before this committee last year, if the rule is eliminated, his schools will be able to offer greater access to low income and minority students. But this is already the case. Ninety percent of revenue per campus can come from such students.

The GAO report even suggested limiting the amount of title IV funds available to 55% of revenue, because it would save an estimated 11 million dollars in default claims annually.<sup>3</sup>

The current rule generously requires that only 10% of a school's services be pitched to and obtained from groups which have some non-title IV funds to pay for tuition. Why do these schools object? Is it that other groups not so heavily dependent on financial aid are more discerning consumers?

By limiting the percentage of federal funds available to each trade school campus, the expectation is that the overall quality of education will improve because the school would have to recruit more well-off students who would have to pay for at least part of the program from other sources, such as their own savings.

#### *ENFORCEMENT OF 90/10*

Despite the harshness alleged by schools of the 90/10 rule, only four schools have ever been shut down by it. I assume this is because the rule is enforced by self-reporting of the schools. I believe this is a mistake.

Further, if only four schools have ever faced a problem with 90/10, why is this industry so vehemently fighting to eliminate it? Have these schools thus far deceived the Department with respect to their sources of funding, because of lack of oversight by the Department and the Department's reliance on self-reporting?

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<sup>1</sup> ED-OIG/A03-C0017 DECEMBER 2003 "Audit to Determine if Cohort Default Rates Provide Sufficient Information on Defaults in the Title IV Loan Programs—See chart on p. A1 titled "Gross Default Rates By Risk Category" (hereinafter referred to as Audit Defaults).

<sup>2</sup> Proprietary Schools: Poorer Student Outcomes at Schools That Rely More on Federal Student Aid, HEHS-97-103, June 13, 1997, online at <http://www.gao.gov/archive/1997/he97103.pdf>

<sup>3</sup> Id., page 3

The OIG has postulated that indiscernible or unreported data may indicate probable violations of the 90/10 rule. Because of the inherent flaw in relying on a self-reporting system, it is likely there are some schools in violation of the 90/10 rule that we do not know about.<sup>4</sup> Again, if only 4 schools were truly in violation this would be a non-issue.

By way of example, Mr. Moore of Corinthian at last year's hearing provided funding information regarding two entirely different campuses which had funding near the 90% limit. It would be interesting to know how these same campuses survived the 85/15 rule, unless both are new campuses.

Mr. Moore compared these with suburban campuses which had more non-title IV funding. But nothing indicates that the student outcomes at the two campuses (inner-city v. suburban) were comparable, or that the completion / placement rates at either were good. So why should access to intercity students be encouraged?

No information was provided by Mr. Moore about the starting salary earned by these students. I am not interested in having low income minority students go into debt and get no job or a low paying job. But even these statistics re starting salaries are suspect, because they are self-reported.

A report done by the OIG<sup>5</sup> indicated that self-reported placements by accrediting agencies were not reliable, as most of the schools in the sample inflated the placement rate, and often by a huge component. Only two of the seven provided accurate data. None of the additional schools that were evaluated correctly reported its placement rate.

How close proprietary schools are near to the 90%, or how many are likely to be over, it is not known. It is a very bad idea to eliminate a rule that if enforced may have a salutary effect on the education which students receive at proprietary schools, or which may decrease the number of ripped-off students.

I hope the committee is not fooled by the contention that fraud and violations of the law no longer exist. I know this not to be the case.

#### *THERE IS NO POINT TO INCREASE PROPRIETARY SCHOOL ACCESS TO INNER-CITY STUDENTS WHEN DECENT PAYING JOBS DO NOT RESULT*

Further, what point is there in allowing these schools more access to low-income / minority students, if the students do not get decent paying jobs. For the two-year degrees, only 20% or less, up to 40% of students, complete the course in the schools that I have seen data for. Of those who complete, they often find only low paying jobs. Some of these fields of study, like cosmetology and fashion, have more job applicants than jobs.

I do not want these students to pay \$30,000–\$50,000 for a fashion course of study and end up folding t-shirts at The Gap, as disclosed on the Sixty Minutes segment, when that woman could have gotten the same job with no vocational training.<sup>6</sup>

Further, Tami Hanson, former Director of Placement for Career Education Corporation (hereinafter CEC) said that the cost could be even more, as much as \$60,000 to \$80,000.<sup>7</sup>

The letters I have received since the Sixty Minutes story reinforce why I believe it is essential to maintain the 90/10 rule, and even increase the ratio. These comments from one such letter relate to American Intercontinental University, a sister school of Brooks College in Long Beach, featured in the Sixty Minutes story:

"We have been raising issue with these questionable practices ever since CEC bought AIU three years ago. We saw the demographics shift to primarily low income, D average (and below) students who were ill prepared to commit to the structure, rigors and requirements of a design college. They were taking out huge federal loans to pay for their tuition, and then because they had no funds for supplies, transportation, or even food, would fail.

I have a DEEP SEATED moral problem<sup>8</sup> with targeting these students, getting hold of their financial aid monies, and lying to them in a variety of ways (i.e. they will be able to get a B.A. degree in two years, they will be able to get a job with JayLo designing, they will be able to get a job with Spielberg and the list goes on and on). As stated above, the majority of these students recruited are not ready for a college, especially one that will land them \$60,000 to \$80,000 in debt IF they finish, which the majority

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<sup>4</sup> See General Accounting Office, "Proprietary Schools: Poorer Student Outcomes at Schools that Rely More on Federal Student Aid," GAO/HEHS-97-103, June 1997

<sup>5</sup> OIG Report ACN:06-3004 dated May 8, 1995 "Looking Ahead" Managing for Results: Review of Performance-Bases Systems at Selected Accrediting Agencies.

<sup>6</sup> See transcript of Sixty Minutes expose, attached.

<sup>7</sup> Id.

<sup>8</sup> Emphasis in the original letter.

does not. They have no discipline to come to class, to do the work required for completion of the course and we flunk a large number of these applicants. But that's ok to the Administration. They allow them to withdraw or take a leave, they collect their financial aid and let them back in after a quarter off. . . a student who had flunked EIGHT QUARTERS (that is 3 classes each quarter at a minimum of \$1800 per class for a total of \$43,200.). He was re-admitted last year only to continue his poor academic standards, flunking or withdrawing from his classes!!!! This is not unusual" The faculty hold these students to standards that are in keeping with college level classes, even though we are repeatedly pressured by the Administration to "work with them" meaning "pass" them through so they do not drop out and we can no longer get their federal money!

... It is because of this accreditation (and I use the word loosely here) that AIU is eligible for these hefty federal monies. It is just so morally wrong, as you know. These students DO NOT need to be going to a private \$60,000 to \$80,000 college when the Community Colleges were founded for EX-ACTLY this purpose. I have gone down on my knees (literally!) and begged some of my at-risk students to drop the first week because I can TELL they will fail (they don't show up at all the first day and come with no supplies or do not have money for supplies the second day and they don't really even know WHEN they will have money for them!). They usually fail and I am forced to give them that grade."<sup>9</sup> (emphasis in the original)

Other letters about the same school (two others) or different campuses and schools, such as the Art Institute, an Education Management Corporation school, had the same complaints:

- unqualified students were admitted
- misrepresentations were made to get students to enroll, re:
  - starting salary
  - prestigious employers
  - etc.
- And the completion rates were low.

It would be ill advised to get rid of 90/10, so that schools can rip off more disadvantaged and ill prepared students. Often the poor completion rates are not disclosed, and if known and understood should influence low income students not to sign up.

#### *LOW COMPLETION RATE / LOW STARTING SALARIES AT BROOKS COLLEGE*

A case in point is the Long Beach campus of Brooks College, owned by CEC. The college "claims" a high placement rate for its graduates with the school's assistance if we are to believe the school's self-reporting. But the school's accreditor, the Western Association of Colleges and Universities provides in the summary of its evaluation report as follows:

"The claims must be viewed in light of the fact that only about 35% of Brooks' students ever finish the program and that another 10% of those who do complete or graduate are waived from placement..."

The quality of job placements is another important indicator of college program integrity. The college claims in its catalog, for example, that graduation from the Interior Design program "automatically puts you in the elite group of well educated interior design professionals" and that "as a Fashion Merchandiser [graduate] from Brooks College, you'll be prepared to handle some of the most competitive and serious business management and executive training positions in fashion capitals around the country." *Within such statements, there is an implied representation of program quality, market competitiveness of graduates, and availability of career opportunities.* However, college data show that the average starting salary way for Interior Design graduates is \$11.67 per hour and for fashion merchandising graduates is barely above minimum wage. The most common job title for fashion merchandising graduates is sales associate. The average starting wage for graduates and completers in all programs majors is less than \$11.00 per hour. (2.1, 2.9) <sup>10</sup> (emphasis added)

At the Katherine Gibb School, the Sixty Minutes producer asked the completion rate, and was told that it was 89%, when it was actually 29% (a 60% error)<sup>11</sup>.

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<sup>9</sup> Excerpts from a letter from American Intercontinental University employee.

<sup>10</sup> WASC report summary, page 13.

<sup>11</sup> See Sixty Minutes transcript, attached.

I do not want these opportunities for low income and minority people. I do not want them to pay off a \$40,000 loan working as a sales associate at Macy's. Neither should you. These are businesses, looking for bodies to sign up for federal money that they put in their pockets.

#### *LOW INCOME STUDENTS GET FAR MORE GRIEF THAN HELP FROM PROPRIETARY SCHOOLS*

Low income students get far more grief than help from these schools. There may be some success stories but there are far more failures. I have seen the devastation caused by these schools in my community, and the devastation has continued unabated. The only difference in my state is that—because of state law, and the law regarding ability to benefit students—such students (non high school graduates) are at least left alone.

But instead, equally poor and often minority high school graduates, who are often ill prepared for higher education, are ripped off for many more tens of thousands of dollars. They are signed up for courses they cannot benefit from, even when the instruction is adequate (which it often is not). Too often, adequate teaching staff is considered an unacceptable overhead expense by the school chain.

#### *MOST OF THE MONEY IS SPENT ON ADVERTISING AND RECRUITER SALARY, NOT FACULTY*

In these schools, often the number of admissions representatives or recruiters dwarfs the number of full time faculty. The amounts spent on advertising, lead creation, recruiting, and admissions representatives far exceed the salaries paid to the faculty. If the school got student good jobs, it could rely on word-of mouth advertising.

#### *LOW ADMISSIONS STANDARDS*

The entrance standards at these proprietary trade schools are exceedingly low—usually a 2.0 grade point average for the two year courses. But as we saw on 60 Minutes and have found time and time again, low performing students and those in need of remedial education are let into these programs, regardless of their grades, which do not even meet the school's mediocre acceptance standard.

Jennifer McDonald (Associate Producer at Sixty Minutes) could not disqualify herself for admission by low grades, drug addiction, or failing the entrance test<sup>12</sup>. Students are let in regardless of their test scores or failing grades.

As noted by a former recruiter for Brooks College, the only requirements for admission at Brooks College was "\$50.00, a pulse, and you've got to be able to sign your name".<sup>13</sup>

#### *LOW COMPLETION RATES*

The school knows full well that such students will never complete the course. They drop out, and sometimes even re-enroll in the same course that he or she failed out of (see the letter from an American Intercontinental Staff Member above).

From the information I have seen regarding the two year school trade school courses, usually only about one third (1/3) of the students actually complete the course. I believe the highest completion rate for any course at the Career Education School, Brooks College in Long Beach, was 38 percent<sup>14</sup>. In 2003, there were 396 graduates and 1,131 drops or withdrawals at Brook College of Photography in Santa Barbara, part of the CEC chain.<sup>15</sup>

#### *EVEN GRADUATES DO NOT GET DECENT PAY*

Those who complete the course do not necessarily fare any better, because they have a bigger debt to pay. Many do not get jobs, because there are too many schools teaching the same courses of study, so there are more graduates than there are jobs. This depresses the wage scale.

For example, the numerous students that take medical assisting courses often find no job, or if they do find a job in the Los Angeles area, for the most part the jobs are a minimum wage or a little above, with no benefits and few opportunities for a significant pay raise. This was the case regarding the plaintiffs and witnesses in the case of Soltero v. Corinthian (Los Angeles Superior Court Case BC238435).

The students were assured of a job after they graduate, making \$9.00 to \$12.00 an hour, or \$10.00 to \$15.00 an hour. But they got no job or a low paying job, for

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<sup>12</sup> see Sixty Minutes transcript, attached

<sup>13</sup> Id.

<sup>14</sup> See discussion above, page 9

<sup>15</sup> Evaluation Report of Brooks College by the Bureau of Private Postsecondary and Vocational Education (the California enforcement agency)

the most part. Such marginal pay does not justify taking on the burden of student loans, when they could have gotten the same salary without any training. But at least these students were only out \$8,000 to \$10,000.

#### *LOW PAY UPON COMPLETION OF TWO YEAR COURSES*

The same is not the case for those who complete two-year trade school courses which lead to an applied degree. The woman on the Sixty Minutes expose paid for a fashion course at Brooks College in Long Beach, California, then got a job at the Gap folding T-shirts. The cost for the fashion courses can range as high as \$60,000.00.<sup>16</sup> I am sure that is not the job (Gap employee) that she envisioned after the expenditure of so much money for training.

The accrediting agency, Western Association of Colleges and Universities (WASC) did an evaluation of Brooks College in Long Beach (one of the schools featured on Sixty Minutes). This report indicated similarly low starting salaries for students in other two-year courses at the school.

The college data show that the average starting wage "for fashion merchandising graduates is barely above minimum wage. The most common job title for fashion merchandising graduates is "Sales Associate" (emphasis added). The average starting wage for graduates and completers in all programs is about \$11.00 per hour.<sup>17</sup> But the admission representatives featured on sixty Minutes indicated that they would be making a starting salary of \$35,000 to \$40,000.<sup>18</sup>

How many of the thousands of students who have attended the Brooks College and its sister College, American Intercontinental University in Culver City offering many of the same courses would have signed up for a course costing \$30,000 to \$50,000 if they knew that only about one third of those who started the course would finish?

And those who completed the course and got jobs could expect between minimum wage and \$11.00? Not many, I suspect. And this is a nation wide chain. <sup>19</sup> For someone of even average intelligence, this is not a rational choice unless s / he is deceived.

The low starting salary after a two year course of instruction in Photography at Brooks College in Santa Barbara was confirmed in the December 1, 2004 report regarding the re-approval of this school done by the state enforcement agency, the Bureau of Private Postsecondary Education (discussed hereinafter as "Bureau"). The Bureau looked at a sample of graduate files.

While the school, Brooks College in Santa Barbara, touted a starting salary ranging from a low of \$34,000 to \$75,000, the student sampling done by the Bureau of Private Postsecondary Education indicated exceeding low starting salaries (to be discussed hereinafter). The best pay of a graduate in the samples was a \$10.50/hour job at a photo lab, which went out of business.

Further, the same report indicted that although the school records showed that the school assisted the student in obtaining the jobs, albeit low paying, in fact, only one of the students received any help from the school in obtaining employment. <sup>20</sup>

#### *PLACEMENT SERVICES MISREPRESENTED*

A class action law suit was recently filed against Brooks College in Santa Barbara, and another one was filed against American Intercontinental University, another Career Education Corporation (hereafter "CEC") school, alleged that the college's placement services and placement assistance was misrepresentation. From the sampling done by the Bureau at the Santa Barbara campus, that seems to be the case.

Only one student in the Santa Barbara sample received any assistance. The graduates of the Brooks College in Long Beach confirmed that they received no placement assistance<sup>21</sup>.

#### *EASY PREY*

I know that what students are promised by these schools is not what they get. Misrepresentations are made about:

- the quality of instruction
- the state of the art equipment and supplies
- the anticipated starting salary
- the transferability of units

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<sup>16</sup> See Sixty Minutes transcript, attached.

<sup>17</sup> See more complete discussion above, page 9

<sup>18</sup> See Sixty Minutes transcript, attached.

<sup>19</sup> Career Education, the owner of these schools is a nationwide chain

<sup>20</sup> See December 1, 2004 report.

<sup>21</sup> See Sixty Minutes transcript, attached.

- the completion and placement rates
- the student selection process
- placement services
- jobs with prestigious employers
- etc.

My constituents are fooled time and time again, and are the focus of recruitment efforts only because of their access to financial aid. That is why I proposed the 85/15 amendment initially, and why it's watered down sister, 90/10, must be maintained. The protections that HR 507 seeks to eliminate also must be maintained.

These schools look for their recruits the same place the armed services does—in low income neighborhoods among those who are starved of opportunities and want a piece of the American dream.

#### *UNITS DO NOT TRANSFER*

None of the units earned at these trade schools are meaningful. They do not transfer to other schools including state schools but the students are not aware of this. They are lead to believe despite the disclaimer in the catalogue that because the school is accredited the units transfer. The admissions representatives feed that misconception.

If they in fact go to another school, even after paying \$50,000 they end up as freshmen again. This misrepresentation is the basis of law suits against Corinthian (a nation-wide chain) in Florida.

#### *PLACEMENT RATE MISREPRESENTED*

The biggest misrepresentations made to students that convince them to enroll are anticipated starting salary (discussed above) and the placement rate. But both are often misrepresented. The starting salaries that prospective students are told are seldom true. Many schools tout a 90% plus placement rate. But these are self reported rates and not necessarily accurate.

The WASC report regarding Brooks College in Long Beach implied that the alleged placement rate may be deceptive because most didn't complete the course, and an additional 10% was excluded from the placement calculation.

The recruiter for Brooks College in Long Beach said:

"We are selling you that you're gonna have a 95% chance that you are gonna have a job paying \$35,000 to \$40,000 / year by the time you are done in 18 months", say Shannon. We later found it was not true at all." <sup>22</sup>

In a lawsuit against ITT a San Diego law firm proved at trial that ITT inflated its placement rate. For example, a student who was counter help at Burger King was listed as a placement for the Hotel and Restaurant Management course.

The same law firm, Majors & Fox, in litigation against the Corinthian chain also has depositions showing that the school inflated its placement rate. In two class action lawsuits against two Career Education Corporation schools, Intercontinental University in Culver City and Brooks College in Santa Barbara, the plaintiffs allege that the colleges have inflated or misrepresented the placement rates. Another report in December of 2004 on the latter school by the Bureau<sup>23</sup> (the state enforcement agency) confirmed that the school misrepresented its placements.

In addition, the Council of Private Postsecondary Education, the enforcement agency in California prior to 1998, reported that in a sampling of placement rates from for-profit trade school placement logs, (with respect to every school sampled), the placement rates were misrepresented and inflated.

In an OIG Report<sup>24</sup> regarding accrediting agencies, the IG checked a sampling of placement information from a series of seven schools with three different accrediting agencies.

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<sup>22</sup> See Sixty Minutes transcript, attached.

<sup>23</sup> dated 12/1/04 to be discussed hereinafter

<sup>24</sup> OIG Report ACN:06-3004 dated May 8, 1995 "Looking Ahead" Managing for Results: Review of Performance—Bases Systems at Selected Accrediting Agencies  
Page 6 of that report cited that:

"We believe inadequate verification of the performance data may have allowed some schools to report data that could not be supported or was inaccurate."

Because of our concerns about the agencies' verification procedures [regarding placements—(comment added)], we visited seven schools accredited by three of the agencies to determine if the schools' reported placements were reliable. "Our purpose is selecting and visiting the schools was to demonstrate the existence of a condition and the need to verify the accuracy of schools' reported performance data, not the extent of inaccurate reporting.

Based on our work at the seven schools, we determined that:

- 2 of the schools' reported placement rates were accurate,
- 3 of the schools' reported placements were overstated, ranging from 100 to 270 percent, and

Continued

The IG found that only two schools correctly reported the placement rate and the others had inflated the rate as much as 270 %.<sup>25</sup> Only two out of ten schools that were tested, accurately reported the placement rate.

Even if we assumed placement was accurately reported, which is a big assumption, the accreditors' definition of a placement can be so expansive that a job of a few hours or a day or an unrelated job counts as a placement.

For example the definition of placement can be a job in the field of training or a related field. This could be anything and everything and every school could have 100% placement for paying a third party to hire their graduates for a half a day.

As Tami Hanson, former placement director at CEC said, "(A) placement did not necessarily mean getting students the jobs they trained for. As she says a job placement could mean *just about almost anything.*"<sup>26</sup> (emphasis added)

And really should the school be allowed to count as a placement a job which requires no experience or training? This happens all the time.

#### ***FRAUD, ABUSE, AND VIOLATION OF THE LAW STILL PERSIST, WITH LITTLE ENFORCEMENT***

Sadly, more than a decade after the passage of additional student and financial protections, many of the same problems persist. Yet, the US Department of Education does little or nothing in following upon student complaints. In the recent months, ITT, a nationwide chain of vocational schools, has become the subject of an FBI fraud investigation. Campuses have been raided in six states. Prior to this, the Department let this chain off with a small fine.

The campus of a local chain in the Central Valley of California has also been raided by the FBI. In addition, Career Education Corp., one of the largest for-profit proprietary education chains, has recently had two class actions filed against it, claiming multiple misrepresentations made to students. An investigation has been initiated by the SEC.

These class action lawsuits against CEC schools involve American Intercontinental University in Culver City<sup>27</sup>, and Brooks College in Santa Barbara<sup>28</sup>. Sixty Minutes did an expose featuring a third CEC campus, Brooks College in Long Beach, and visited a dozen CEC campuses where the same problems existed.<sup>29</sup>

For-Profit College: Costly Lesson <http://www.cbsnews.com/stories/2005/01/31/60minutes/main670479.shtml>

In California, the Department of Education has uncovered violations in obtaining federal loans at Corinthian's Bryman College campus in San Jose, California. There are two ongoing lawsuits by students in Los Angeles against Corinthian, and another two in Florida claiming misrepresentations.

A new lawsuit has been filed by Bryman students in Long Beach (a chain owned by Corinthian) alleging misrepresentations. Further, stockholder suits have been filed against the largest proprietary school chains. But the Department has done nothing to follow up on these claims.

Clearly the statement of Mr. Moore, CEO of Corinthian, at the June 16th hearing that, "this problem [abuse and fraud] has been effectively addressed," is far from accurate. In spite of this, industry representatives are asking Congress in current legislation to give these schools unfettered access to Title IV funds.

Members of this committee should reject the provisions of HR 507, which enable for-profit schools greater access to financial aid. Trade schools abuses are an ongoing problem and it is simply being ignored by state and federal regulators. This is what I am distressed about.

Few resources are invested in uncovering and investigation misrepresentation and fraud. The Department does not appropriately follow up, even when others (whether

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- 2 of the schools had insufficient documentation for us to test the accuracy of reported placements.

Additionally, our office recently issued audit or inspection reports on three other schools that had overstated their job placement rates ranging from 54 to 112 percent." (emphasis added)

<sup>25</sup> Id.

<sup>26</sup> See Sixty Minutes transcript, attached (emphasis added).

<sup>27</sup> Outten, et. al. vs. Career Education Corp., American Intercontinental University (BC 318199), filed July 19, 2004. The complaint provides that the school made misrepresentations about the quality of instruction, the school's placement rate, and the placement assistance that would be provided (emphasis added).

<sup>28</sup> The lawsuit details the finding of the State enforcement agency, and claims that Brooks students were subject to high pressure sales pitches with misrepresentations of a 98% job placement rate, \$75,000.00 starting salaries, a competitive application process, comprehensive job placement services, and an alumni network to assist the student in obtaining employment (emphasis added). Nelson et. al. vs. Career Education Corp., Case 1165597, filed February 4, 2005.

<sup>29</sup> See attached Sixty Minutes transcript, also available at CBS News Online

it is uncovered by whistleblowers, student complainants, or attorneys) have uncovered fraud and violations of the law.

#### ***ACCREDITING AGENCIES ARE POOR GATEKEEPERS***

Mr. Moore, CEO of Corinthian, in his testimony before this committee last year, declared that accrediting agency oversight is all that is needed to ensure quality education. But there is little reason for having confidence in accrediting agencies.

An audit by the Office of the Inspector General in July 2003<sup>30</sup> found multiple deficiencies with respect to the Accrediting Agency Evaluation Unit within the Department of Education's Office of Postsecondary Education. This is the unit with oversight over accrediting agencies, which in turn have oversight over trade schools.

Specifically, the audit found that the Evaluation Unit did not meet the minimum level of quality for management controls as defined in the GAO office publications. The report reserved the worst criticism for the Unit's oversight of regional and national accrediting agencies which were overseeing trade schools. The report recommended that no new agencies be approved until protections were in place.

The American Council of Trustees and Alumni (ACTA), in its report titled "Can College Accreditation Live Up to Its Promise"<sup>31</sup> by George C. Leaf and Rowena D. Burris provided as follows:

- 1) "Our overall finding is that accreditation does not guarantee educational quality."
- 2) "Finding: the accreditation process focuses on compliance, with a set of input criteria that do not bear directly on student learning."

Thomas R. Bloom (Inspector General of the U.S. Department of Education), in testimony<sup>32</sup> before the House Committee on Governmental Reform and Oversight Subcommittee on Human Resources, March 27, 1997, on the topic of "DOE Management and Programmable Issues", stated that the Office of the Inspector General found accrediting agencies' monitoring of trade schools to be inadequate:

*"We continue to believe that accrediting agencies are inadequate gatekeepers for assuring the quality of participating vocation trade schools. A recent OIG audit of the accrediting agency process revealed that on-site reviews conducted by six accrediting agencies were infrequent typically occurring only every four to nine years, and lasting only several days." (emphasis added)*

In his testimony before this committee last year, Mr. Moore implied that the 90/10 rule was no longer necessary because the accrediting agencies would be an adequate check on school quality and fraud.

Accrediting agencies can not make up for the elimination of the 90/10 rule because the accrediting agencies are themselves private companies dependent on the fees paid by the trade schools. They have few employees, given the number of schools they regulate.

In fact, there is a built-in conflict of interest with respect to accrediting agencies, because they have no incentive to revoke accreditation since their income-stream is directly determined by the number of schools they accredit. Even if an agency increased its standards based on the elimination of the 90/10 rule, a school can still shop among several accrediting agencies and choose the one with the lowest standards.

#### ***AN EXAMPLE OF AN ACCREDITING AGENCY'S FAILURE TO APPROPRIATELY MONITOR A SCHOOL***

A former employee of Brooks contacted the state enforcement agency (BPPVE) and the Accrediting Council for Independent Colleges and Schools (ACICS), the schools's accrediting agency about violation of the law. ACICS did an investigation and found nothing wrong.

The Bureau of Private Postsecondary Education did an investigation in connection with an application for reapproval of the school, but unlike the accreditor, the state enforcement agency found multiple violations:

- the catalogue was found wanting
- its enrollment agreement was out of compliance
- another questionable practice found was that enrollment agreements were signed by the students several months before the actual start date of the educational program.

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<sup>30</sup> OIG Final Audit Report ED-OIG/A09-C0014, July 2003 "Office of Postsecondary Education, Accrediting Agency Evaluation Unit's Review of Selected Accrediting Agency Standards and Procedures"

<sup>31</sup> P. 18, online at <http://www.goacta.org/publications/Reports/accrediting.pdf>

<sup>32</sup> P. 4, Online at <http://www.ed.gov/Speeches/03-1997/oig.html>

- the school did not make the necessary disclosures regarding completion and placement and the transferability of units as required by California law
- the school did not adhere to its stated admissions policy, including the policy that requires a 2.0 high school grade point average for admission.

The state enforcement agency found that the institution is not in compliance with Title 5, CCR section 71770(a) which requires that: “the institution shall not admit any student who is *obviously unqualified* or who does not appear to have a *reasonable prospect of completing the program*.<sup>33</sup> (emphasis added)

Further,

“the total number of graduates for 2003 to the date of the visit was 396.

The number of drops / withdrawals for the same time period was 1,131.”<sup>34</sup>

You do the math. This is exactly the sort of low completion rate information that prospective students need to be informed of, as required under California law (the fact that only about 30 percent of those who start the course graduate).

There are numerous other violations in the report, but the most critical in my mind is the schools’ improper inflation of its completion rate by misrepresenting placements which in fact are not placements.

A brochure submitted with the renewal application indicates career “outcomes” listing job titles, the salary range, and the catalogue includes a “partial list of employers” depicting 119 names of corporations and businesses. Of the fifty graduate files reviewed, only three listed the name of the employer and one was the institution itself.

The Bureau was able to contact eleven of the graduates. The report states that “of the eleven, ten of the graduates stated that they had *not* received job placement from the institution.” (emphasis added)

The school referred one graduate to [www.monster.com](http://www.monster.com) and another to a \$7.00/hour job. The best paid graduate placement on record was a \$10.50/hour job at a photo lab which had since closed. A former student who is attending Chico State University as a student was listed as employed by Chico State.

The report continues: “Five of the graduates are currently unemployed” (five out of eleven). The graduates that were counted as employed included one job at Sunwest Studios at a salary of \$600.00 per month and another is working while enrolled in the Masters program at a local camera shop.

Another graduate who was listed as employed was actually in an unpaid internship. Of those who were employed, all but one got the job on their own. However, “the institution has indicated on the yellow data sheets in the placement files that they have been placed.”

The Bureau found that:

“(t)he institutions” advertisement and promotion is false and misleading, as it depicts job titles and salaries that are considerable, particularly when juxtaposed to the small sampling of the graduates.”

The lowest salary cited by the school is given as \$34,446 (of which 25% of the graduates in that job title will make less than that salary) and the highest is stated as \$76,573.”<sup>35</sup>

Hopefully with the new leadership at the BPPVE and the practices exposed by Sixty Minutes at the Sister Brook College in Long Beach and elsewhere, something will be done about these schools which systemically violate the law.

Because accrediting agencies are dependent on school fees, I strongly believe there is a legitimate need for increasing the 90/10 to require a higher percentage of non-title IV money.

By maintaining and enforcing the 90/10 rule, or ideally raising it, proprietary institutions will hopefully have to recruit students with some income to spend on tuition.

#### ***THE TYPE OF STUDENT RIPPED OFF IN MY STATE HAS CHANGED, BUT THE FRAUD / VIOLATIONS CONTINUE***

The characteristics of the trade school victim have changed, yet systemic fraud committed by for-profit trade schools has not. In the late 80’s and early 90’s the ability to benefit students (those who had not graduated from high school and did not have a GED) and limited English speaking students were most likely to be defrauded.

Because of changes in California and federal law, a school with a high default rate for three years can lose financial aid entirely. But subsequent changes in the counting of default percentages have made this less of a threat.

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<sup>33</sup> BPPVE report re Brooks College, 12/1/05

<sup>34</sup> Id.

<sup>35</sup> page 10, 12/1/04 report by BPPVE

California law prohibits signing up limited English speakers in courses taught in English. Now, these problem schools recruit high school graduates for health certificate programs and “two year” applied degree vocational programs. These students are ripped off for a lot more money, and often find no job, or a low paying job after their training.

The level of damage to these students is far more severe, because of the enormity of the loans they owe, and the fact that their loans cannot be discharged in bankruptcy when the students are unable to pay.

I believe trade schools have begun to focus on high school graduates because they are less problematic, less likely to drop out, and more likely to have the ability to pay back loans or apply for deferments, and keep the schools’ cohort default rates down. High school graduates often repay the loans despite the fact they do not get the job that they trained for or if they do, it is at a lower pay than the proprietary school represented.

Many of these students do default, but because of the change in how default rates are counted, when they do default, it is not counted against the school for purposes of the 25% threshold.<sup>36</sup>

Unfortunately, these students lose their dreams in addition to a lot more money in longer and higher priced courses. Now, the loss per student is much more. Further, the most recent data shows that the default rate for proprietary students over the life of the loan is exceedingly high—44% to 46% for the 2000 to 2002 period.<sup>37</sup>

#### *PROHIBITION AGAINST INCENTIVE COMPENSATION UNDERMINED BY DEPARTMENT*

Since the passage of 85/15, trade schools have been pushing not only for its repeal, but the removal of other safeguards imposed to prevent fraud in their financial aid program. 85/15 was reduced to 90/10 in the late 90’s.

Trade schools have been successful, with the complicity of the Department of Education, of essentially seriously undermining the federal law passed in the early 90’s that prohibited commissioned recruiters or any other types of incentive compensation.

This law recognized that admissions representatives or recruiters are more likely to misrepresent the program, placement statistics, and potential starting salary to get an enrollee to sign up if the recruiter’s salary increased with the number of enrollees.

Incentive compensation gives recruiters an incentive to “doctor” financial aid documents to maximize the school’s revenue. When Corinthian and Career College Association were unsuccessful in lobbying to change the federal law prohibiting incentive compensation enacted in 1992, the Department granted their wish list regarding this prohibition by adopting the regulations that the trade schools had written over the objections of advocates for students in Negotiated Rulemaking.<sup>38</sup>

The worst provision of the regulations allows trade schools to raise an employee’s salary up or down twice a year. Incentive compensation, expressly prohibited by law, was essentially undermined by the regulations drafted by trade schools that were ultimately adopted by the Department.

Thus, the regulations allow a thinly disguised incentive compensation or quota system which violates the spirit and intent of the prohibition and the law. This very modification by regulation may have contributed to the financial aid violations at the San Jose campus of Corinthian (to be discussed below). And these regulations show that the Department is not serious about combating fraud, abuses or violations of the law.

The schools’ motivation is more understandable—they want unhindered access to low income or working class students’ financial aid. The most aid is available to the

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<sup>36</sup> See page 6 of GAO Report to Congressional Register 99-135, “Default Rates Need To Be Computed More Adequately”, July 1999

<sup>37</sup> ED-OIG/A03-C0017 DECEMBER 2003 “Audit to Determine if Cohort Default Rates Provide Sufficient Information on Defaults in the Title IV Loan Programs”—See chart on p. A1 titled “Gross Default Rates By Risk Category”.

<sup>38</sup> A very disturbing pattern exists, wherein those executives who used to work for trade schools are in charge of matters concerning same while in the Department. For example, Jeff Andrade, prior to working for the Department of Education (hereinafter Department), used to work as a lobbyist for Career College Association. After lobbying for trade school interests, he then became a special assistant, and then a Deputy Assistant Secretary for Postsecondary Education. While a special assistant, he guided the adoption of the regulations written by the schools. Subsequently he again became a lobbyist, and now works with Powers, Pyles, Sutter & Verville in D.C. after leaving the Department.

poorest segment of students, who are the least likely to be able to combat any abuses of the school or find allies that can effectively advocate for them.

Unfortunately, the perverse incentives of financial aid cause the excesses of these schools to be visited disproportionately on low income and minority students. This consequence has consistently been the focus of my criticism with respect to trade schools.

#### *LACK OF ENFORCEMENT BY THE DEPARTMENT OF EDUCATION*

There are changes which can be made to existing law which would curb much of the abuse in the for-profit sector. This could be accomplished by mandatory completion and placement requirements, as well as strict liability provisions barring fraud and misrepresentation in the enrollment process. Further, the schools should be required to disclose chapter and verse—the jobs previous graduates obtained, the name of the employer, and their starting salaries.

But there seems to be little point in this, as the Department does little, very little, to enforce existing law. Further, there are Department employees who worked for and lobbied for the interests of the for-profit schools either before or after they worked for the Department, or both.

The Department at times acts more like a trade association for the trade schools than a regulator. The schools have immediate access to the decision makers, and those representing the interests of trade school students are shut out.

#### *STUDENT COMPLAINTS AGAINST CORINTHIAN HAVE NOT BEEN INVESTIGATED*

Neither the Department, Regional Office of the Office of Inspector General, nor the Bureau of Private Postsecondary Vocational Education in California (the state enforcement agency), have investigated the complaints of multiple Corinthian students which were sent to them, even though their claims were supported by twenty to thirty declarations made under penalty of perjury from both students and instructors from multiple campuses and courses of the Bryman chain, owned by Corinthian.

One would think, that even an agency seeking to avoid work, would follow up when the initial work was done for them, but that is not the case. It seems that both the executive and legislative branches of the federal government and those in my state are determined to remove the few safeguards currently in place with respect to for-profit proprietary schools, and to not enforce existing law if it would have a negative impact on the schools.

#### *FINANCIAL AID PROBLEM AT CORINTHIAN CAMPUS OF BRYMAN IN SAN JOSE*

If middle-class kids were targeted with direct advertising and deceived as often as low income and minority students maybe their complaints would be taken more seriously by regulatory agencies and members of Congress, and the State Legislators.

Now, the interests of the defrauded students, who are mostly low income or working class students in California, are totally ignored by the Department of Education and the Bureau of Private Postsecondary Vocational Education (the state enforcement agency).

The Department has repeatedly ignored the wisdom and recommendations of the Office of the Inspector General regarding trade schools, as well as the fact that accrediting agencies are not appropriate monitors.

The state enforcement agency in California has been continually criticized by student advocates, internal audits, and the Sunset Review Committee. The situation is so bad that a monitor has been put in place by state law. But recently there has been a change of leadership in California.

The Department did act on a lead with respect to Corinthian's Bryman campus in San Jose, California. The number of dependents on students' financial aid applications were inflated to qualify for financial aid or more financial aid.

The admissions representatives were trying to meet their quotas, no doubt. Even though the audit found financial aid violations, there were no dire consequences for Corinthian imposed by the Department.

Further, the results of such audits show the value of the few remaining student and anti-fraud protections, which have also been undermined, specifically the prohibition against commissioned recruiters and incentive compensation.

#### *DEPARTMENT'S INVESTIGATION AND PENALTIES ARE NOT SUFFICIENT*

Even when someone of acceptable credentials complains, and financial violations are found, like at the San Jose campus of Corinthian, the investigation is not extended to other campuses of the same chain to see if similar practices and financial

violations exist. Rarely, with the exception of Computer Learning Center, do the trade schools face appropriate sanctions when violations are found.

No such consideration by the Department is ever shown for defaulting students who have been ripped off by known fraudulent schools when they cannot pay their student loans. Payment is still enforced out of their disability or relatively low paychecks, even when the Department knows they have been misled—when they have had the placement rates, starting salaries, and quality of instruction misrepresented to get them to enroll and become obligated to repay tens of thousands of dollars.

Yet the school doing the defrauding may be allowed to pay a few cents on the dollar to settle claims with the Department, or placed on reimbursement status so that they have to wait 45 days for payment of financial aid.

If the school closes, owing the Department money, the corporate officers are not appropriately sanctioned. Then, the same people who served as corporate officers of the closed problem school start new schools and get new financial aid at the new school without any vetting or monitoring of the corporate officers, or restrictions placed on those who previously worked for problem schools which closed.

For example, the current CEO of Career Education Corporation, Mr. Larson, was previously Senior Vice President of Phillips Junior College which closed after many audit violations and thwarted criminal investigations. Phillips owes the defrauded students a \$10 million judgment in Los Angeles, as well as many unpaid refunds.

The same history may be found among other chain schools. The corporate officers of the now defunct National Education Center, with a few exceptions, hold the same or similar positions at Corinthian Colleges or Schools. It is this lack of oversight and investigation that I have continually complained about.

- Why has the Department not looked into the executives of current schools who held similar positions at prior schools which had multiple audit violations and closed owing a lot of money in unpaid refunds, or was the subject of student complaints?
- Why has the Department not looked into the allegations made in class action lawsuits against Corinthian in the lawsuits filed in Florida and the three lawsuits by students in Los Angeles and the one in Long Beach?
- Why has the Department not looked into the allegations made in two class actions against Career Education Corporation schools in Los Angeles and Santa Barbara?
- Why has the Department not followed up on the allegations made in the Sixty Minutes story about Career Education Corporation, particularly the Long Beach campus which got a bad report from its accrediting agency?
- Why has the Department not followed up on allegations made in Matos v. Art Institute, given the significant cost of these programs, the harm likely to befall the students and the school's graduates and the likelihood that if the allegations are true, such irregularities are also happening at some if not all of the other 67 campuses?
- Why has the Department not investigated claims made in whistleblower or shareholder lawsuits against ITT, Corinthian, CEC, and the University of Phoenix?

It is certainly worth a look given the tens of millions of federal financial aid dollars going to this school chain.<sup>39</sup>

#### ***WHY IS THE DEPARTMENT RELUCTANT TO ENFORCE THE LAW?***

- Why was the San Jose campus of Corinthian put on reimbursement (a delay in payment of tuition out of financial aid for 45 days after the program starts) instead of being cut from financial aid completely as a result of its financial aid violations?
- Why weren't curbs put on financial aid given at other Corinthian campuses?
- What information does the Department have that the violations were limited to the one campus?

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<sup>39</sup>In the case of Matos v. Art Institute which goes to trial this April in Santa Monica, allegations in the complaint made by a former employee said that misrepresentations were made to students. Specifically, misrepresentations were made by admissions representatives about the Visual Arts and Culinary Arts programs to prospective students. False promises were made to prospective students in order to convince them to enroll. The Art Institute provided inflated job placement percentages and starting salary averages for the institute's graduates to assist in recruiting new students. Unqualified students were enrolled in order to meet quarterly quotas. The Art Institute in Santa Monica is owned by Education Management Corporation (EDMC). This is a publicly traded corporation with 67 campuses in 24 states. While putting such information in a complaint does not make it true. It is certainly something which should perk the interest of the Department and the state regulatory agency.

- Why did the University of Phoenix and ITT get off so easily when the Department found incentive compensation violations? (I am encouraged that the Department of Justice has filed a brief in support of the attorneys suing the University of Phoenix.)

So, the consequence of a school, like the Corinthian School, Bryman in San Jose, violating financial aid law, is that it does not get tuition up front, but it still does get the money. Did the Department check to see if misrepresentations were made to these Bryman students, as alleged in the lawsuits by students against Corinthian, or by student complaints with the state enforcement agency? Or did it limit itself to the one issue?

If a minority student (such as those that Corinthian seems so eager to educate according to the testimony of David Moore at last year's hearing), obtained financial aid in violation of the law, that student would likely be doing hard time in jail.

It sends a bad message when violations of financial aid law have so few consequences for a school which is caught, but the consequences experienced by defaulting students are many, and severe. If they default (and many of those students owe \$40,000 to \$50,000 in federal student loans), then their tax refunds and earned income tax refund (meant for the children of the poor), families are taken year after year. Their paychecks and disability checks are garnished.

Their credit is ruined, so that they cannot even get credit to purchase a used car to get to work. They are barred from Section 8 housing and other government benefits. They are barred from getting grants and loans to get a legitimate education. Pure and simple, these schools ruin young adult's lives, and steal their dreams. Yet for the most part, the Department refuses to follow up on leads that fraud and violation of the law exist.

#### *TRADE SCHOOLS THAT RELY HEAVILY ON FINANCIAL AID HAVE POORER STUDENT OUTCOMES*

Proprietary schools that rely more heavily on Title IV funds have poorer student outcomes. The GAO report on this issue<sup>40</sup> shows that programs with the highest reliance on Title IV funds, on average, have the highest default and the lowest completion and placement rates<sup>41</sup>. When students default on federal loans the schools get paid, while the taxpayer and the students are left footing the bill. Often, the expensive training does not lead to jobs, but the Department has rejected the OIG recommendations to limit funds for education when the jobs are not there.

Mr. Moore, CEO of Corinthian, in a prior appearance before this committee told the committee that the Marietta campus of the Georgia Medical Institute had obtained 81.9 % of its revenue from title IV funds. The implication was that is was approaching 90%, so the 90/10 rule was bad.

However, he failed to mention that the default rate for that campus in 1999 was 2.8%, but then skyrocketed to 18.5 percent in just three years. One could conclude that this means nearly 1 in 5 students were unable to find employment sufficient to make the minimum loan payments, or did not know to apply for deferments.

GAO studies show students default because they do not have sufficient income to pay the loans. It is disingenuous for Mr. Moore or the directors of other schools to hide the motivations of for-profit institutions behind promises of improving access to education for minority students. I take exception to this.

I believe the real motive behind wanting to enroll more minority and low income students is that they are the most profitable students since they qualify for the highest amounts of federal financial aid and the smallest expected family contribution, or none at all.

Further, they are less likely to complain, and when they do they are less effective, because they don't know where to complain, or how to articulate their complaint, as they do not know the requirements of the law.

It is apparent that there are little or no admissions standards for many of these schools in practice, and unqualified students are enrolled (see prior discussion).

With the newly added pressures from Wall St., the FBI, the SEC, the Department of Education and this committee should be more concerned about protecting these students and taxpayers, rather than protecting the proprietary schools which have a history of violations.

#### *PROBLEM SCHOOL IN MY DISTRICT*

The American College of Medical Technology is an allied health school located in Gardena, CA in my district. Despite being sued at least twice for making misrepre-

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<sup>40</sup> Proprietary Schools: Poorer Student Outcomes at Schools That Rely More on Federal Student Aid, HEHS-97-103, June 13, 1997, online at <http://www.gao.gov/archive/1997/he97103.pdf>

<sup>41</sup> Id., see page 3

sentations to students, the same practices have continued. It is alleged by students that the school makes misleading remarks or fails to explain the certification that these students will receive after completing the MRI course.

The school implies that the students will be qualified for a more widely accepted certification regarding MRI use than what they actually get from the program, and the school provides grossly inflated estimates of probable starting salaries. This is what induces students to spend \$18,000 on tuition for the program.

Students complain of the following:

- they have not been given any hands on experience with the appropriate machinery for their field,
- they were given textbooks that covered different material than that for the course of instruction in which they enrolled, and
- they had instructors that were unable to answer the simplest of questions related to the material.

Despite the lawsuits and multiple student complaints, the school proceeds unabated in any way, unhindered by the state enforcement agency or its accrediting agency. Additional complaints will be filed.

Further, the course does not meet the minimum completion / placement rules under California law. Thus, the school should be ordered to stop offering this program. But the enforcement agency has refused to enforce the law, and the accrediting agency has also been remiss.

#### *PROBLEMS WITH THE CURRENT LAW*

Although most of my comments have been limited to the 90/10 provision, I disagree with CEO of Corinthian, Mr. Moore's comments at the previous hearing, which indicate that the other safeguards regarding schools are sufficient. HR 507 must be defeated.

Accreditation does not ensure a quality education (see discussion above). The cap on default rates can be avoided by not enrolling ATB students and / or by changing to Sallie Mae private loans if the school exceeds the default ceiling for two years.

Further, the change in the computation of default rates has helped the schools by lowering their default rates by not counting students who default after their deferment runs out. The new method of counting defaults protects schools from reaching the 25% threshold over three years, and being barred from receiving financial aid.<sup>42</sup>

The new method of counting defaults looks at only the first two years of repayment, and counts those with a deferment as if they were repaying the loan. But the rules for deferment and forbearance were liberalized, so that the deferment for economic hardship is more easily obtained.

So, low income students would most likely default after the two year period had elapsed, and their deferment ended. But since the default occurred after the first two years, it will no be counted against the school for purposes of computing the default rate.

Between 1993 and 1996, the percentage of proprietary students whose loans were in deferment increased from 3.7% to 9.1%.<sup>43</sup> These new rules save schools from defaulting out of the financial aid program, (but it doesn't help the students or change the actual v. reported default rate). For example, 352 schools, rather than the 181 would exceed the 25% threshold if those whose loans were in deferment or forbearance were excluded from the default calculation.<sup>44</sup>

Nevertheless, proprietary schools count for an inordinate percentage of the defaults. Further, defaults at two-year proprietary institutions exceed that of two-year non-profit institutions.

The satisfactory progress requirement can easily be avoided by giving the students the answers to the test (this is common) or simply changing the grades or re-enrolling the students. The Department is not sufficiently diligent in seeking refunds from problem schools or getting a large enough letter of credit. They often accommodate schools rather than protecting the students and the taxpayers.

Further, the Department does not investigate charges made by students regarding misrepresentations made to influence students to enroll, such as:

- transferability of units<sup>45</sup>
- the probable starting salary

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<sup>42</sup> See GAO Report to Congressional Register 99-135, "Default Rates Need To Be Computed More Adequately", July 1999

<sup>43</sup> Id., p. 7

<sup>44</sup> Id., p. 10

<sup>45</sup> 34 C.F.R. Section 668.72 (b)

- the percentage of students who completed and were placed in a job <sup>46</sup> (even though federal regulations single these violations out as common, and only gives the Department, not private attorneys, the right to enforce these provisions)
- experience and quality of the teachers <sup>47</sup>
- the availability of equipment, books, and supplies <sup>48</sup>
- the type of certification one can get upon graduation.

This is very sad, because these federal regulations have no private right of action, and can only be enforced by the Department, which does not do its job.

#### *SCHOOLS SHOULD HAVE A REPORTING REQUIREMENT*

The Federal regulations specifically prohibiting these practices listed above. But these prohibitions may as well not exist for all the (non-existent) enforcement that is done by the Department. We should not have to count on whistleblowers or private attorneys to do the Department's job. There should be specific laws and regulations which only apply to trade schools (those with no significant general education requirements).

Such schools should be required to report all lawsuits filed by students and stockholders against the school and all lawsuits filed by former employees or stockholders that allege violations of financial aid or education laws and / or regulations. The Department should be required to investigate all such allegations. The Department should be given no discretion in this regard.

All trade schools should also be required to give a copy of any confidential settlement of such a lawsuit to the Department, the OIG and the state enforcement agency. The Department should not simply ignore such suits which are a source of evidence, as is the case now.

Furthermore, this committee should investigate why the Department does not sufficiently investigate schools that violate the law and hand out appropriate penalties when they show no mercy to defaulting students who have been defrauded and are having 15% of their paychecks or disability checks taken so they are not left with sufficient funds to support their families.

The low income former students' earned income tax credits, which are to benefit low income children and tax refunds, are taken year after year from defrauded students who defaulted and did not get a job. The amount owed by the student never goes down because of added interest and huge collection fees which can add an additional 40% to the amount owing. These trade school students get zero priority from the department. This has simply got to change.

#### *CONCLUSION*

For the reasons discussed, above it is essential that the 90/10 rule be maintained and the fraction needs to be increased. To do anything else is to declare open season on low-income people and minorities. I am dead set against this.

To eliminate the rule will cause a whole lot of heart ache and family disruption at the lower end of the economic ladder. These families will be squeezed to the breaking point when the Department of Education tries to collect on the \$40,000 in loans, when the family member did not get a job and has barely enough to feed and house the family.

I do not view these schools as offering opportunities to my constituents. These schools are using my mostly African-American and Latino constituents as mere ciphers to get the highest level of financial aid. They want my constituents merely to feed there bottom line without regard to the misery that most certainly will follow.

#### **TRANSCRIPT OF THE SIXTY MINUTES SEGMENT**

For-Profit College: Costly Lesson  
Jan. 30, 2005

Are you interested in a new career? Are you looking for specialized training and a high-paying job in computers, fashion or health care?

Well, a lot of people must be, because companies selling that dream, the for-profit career colleges, are one of the fastest growing area in the field of education.

It's a multi-billion dollar business with most of the revenues guaranteed by the federal government, and until recently the industry was the darling of Wall Street.

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<sup>46</sup> 34 C.F.R. Section 668.72 (c)

<sup>47</sup> 34 C.F.R. Section 668.72(h)

<sup>48</sup> 34 C.F.R. Section 668.72(g)

Now, it's under scrutiny, with one of the biggest players facing allegations that it deceived investors, the federal government, and students, who say they've been taught a very expensive lesson. Correspondent Steve Kroft reports.

If you've ever watched daytime TV, you've probably seen one of Career Education Corporation's ads offering students a brand-new life.

"Ever think you could be part of this? With the right training, you can!"

That one was for the Katharine Gibbs schools, which were bought by Career Education Corporation in 1997, and make up just a small part of its scholastic empire.

A year ago, CEC was one the hottest stocks on the NASDAQ exchange, with five years of record growth and \$1 billion in annual revenue. It comes from nearly 100,000 students at 82 different campuses, taking classes in everything from computer animation to the culinary arts.

Brooks College in Long Beach, Calif., offers training in fashion and design, but its graduates have a special nickname for their alma mater: "Crooks College."

Why?

"Cuz they robbed us," says one graduate.

"Everything was a lie," says another.

What was the biggest lie?

"Job placement—98 percent job placement," several graduates said. "They said, like, starting \$30,000 a year, \$30,000 or more."

Brooke Shoelberg, Chanee Thurston, and Amanda Harris enrolled to study fashion merchandising after the school signed them up for tens of thousands of dollars in student loans, and showed them videos promising to help them get jobs with companies like Giorgio Armani.

Did Brooks College find any of them a job? No, they said.

Did it make an attempt to find them a job? Again, they said no.

The school declined to comment, but 60 Minutes knows that all three women graduated near the top of their classes. A year later, none had been able to find the kind of job she was supposedly trained for.

Brooke was managing a telephone store; Amanda was unemployed; and Chanee was selling T-shirts. All of them went heavily into debt to get a two-year degree they now believe has little value.

"The school has no credibility with the fashion industry, whatsoever," says Thurston.

Complaints, laid out in a number of lawsuits against CEC by former students, investors, and employees, are now under investigation by the Justice Department and the Securities and Exchange Commission.

The lawsuits and the investigations were cited by CEC as the reason for declining a request by 60 Minutes for an on-camera interview.

But there were plenty of other people willing to talk on-camera. One man, who wore sunglasses and a visor, said, "I am completely embarrassed that I ever worked at Brooks College or for CEC."

This man, along with two of his former colleagues, Barry Ross and Eric Shannon, used to work at Brooks College. They say there were some dedicated teachers there, but that the administration was more interested in making money than in educating students.

Ross' title was admissions representative. But Shannon says "we were really sales people."

"Selling the dream, basically," says Ross.

"We're selling you that you're gonna have a 95 percent chance that you are gonna have a job paying \$35,000 to \$40,000 a year by the time they are done in 18 months," says Shannon. "We later found out it's not true at all."

"Yeah, it wasn't true at all," says Ross.

According to an evaluation report from the Western Association of Schools and Colleges, "Only about 38 percent of Brooks students ever finish the program," and the average starting salary for all graduates is "less than \$11 dollars per hour."

The admission counselors told 60 Minutes they were expected to enroll three high school graduates a week, regardless of their ability to complete the coursework. And if they didn't meet those quotas, they were out of a job, which is what the man in sunglasses says happened to him. They all say the pressure produced some very aggressive sales tactics.

"In that way, the job was a lot like a used-car lot, because if I couldn't close you, my boss would come in, try to close you," says Shannon.

The enrollment fee was \$50. "You need three things," says the man in sunglasses. "You need \$50, a pulse, and you've got to be able to sign your name. That's about it."

You have to sign your name to a government loan form. The government-backed student loans are crucial to the entire industry.

In 2003, they made up nearly 60 percent of CEC's revenues. And in order to be eligible for that money, CEC is required to provide students with accurate information about job placement.

Would CEC exist if it weren't for government loans?

"I don't believe that they would be a \$1 billion company in 10 years, if it weren't for the federal government loan programs," says Tami Hanson, who was once the national manager in charge of student placement for all of Career Education Corporation's campuses in the United States.

Hanson, who was fired a few months ago, was one of more than 50 current or former employees with whom 60 Minutes spoke at more than a dozen schools. All had variations of the same story.

What was the corporate culture like?

"All about the numbers, all about the numbers," says Hanson. "Getting students enrolled, getting students in the seats. Keeping students in the seats, getting them passed enough to graduate, and then trying to get them any job we could."

But getting students any job they could did not necessarily mean getting them jobs they were trained for. And she says a job placement could mean just about almost anything.

"It may be that, you know, they end up placing them folding T-shirts at the Gap at a fashion, as a fashion grad—which is fine, but not what they were promised in the beginning," says Hanson.

"And a job they could've gotten without paying \$15,000 or \$30,000," says Kroft.

Actually, it is more like \$30,000 \$60,000 and \$80,000 depending on the program, says Hanson.

Hanson says the quality of education varies from school to school, and that there are some very good programs and highly motivated students who find successful careers. But she says too many students simply don't have the aptitude or the skills necessary to succeed in class or the workplace.

"They were not prepared, but at the same time, the instructors were really pressured to pass them through that class to keep them in school," says Hanson.

So CEC could keep collecting the government money? "So they could keep the revenue," says Hanson.

CEC has denied these and other allegations in response to various lawsuits, and it says it's made compliance with government regulations and investigating complaints a top priority.

Chairman John Larson wrote 60 Minutes saying, "We'll investigate the situations cited in your report and take appropriate corrective action as violations are identified."

And it did not take long to find a violation. To see how the admissions process works, 60 Minutes Associate Producer Jennifer MacDonald, armed with a hidden camera, went to a number of CEC schools in the New York area.

At the Katharine Gibbs School, she began by asking about graduation rates. She was told that 89 percent graduated.

But that wasn't even close. According to the Department of Education's most recent figures from 2003, this school's graduation rate was 29 percent not 89 percent, a difference of 60 points. Federal regulations require that prospective students be given the official statistics in writing prior to enrollment and the admission representative seemed ready to sign MacDonald up.

When MacDonald wanted to know about a career in fashion, this is what she was told: "These jobs pay a lot of money. You're looking at, if you take this craft and be very serious about it, you can make anywhere from hundreds of thousands to if you go up to be a designer."

But not everything at Career Education Corporation is fashion or business. Its Sanford Brown Institutes prepare students for careers in health care; training ultrasound and cardiovascular technicians; and medical and surgical assistants.

The admission representative told the associate producer that the school was highly selective. So MacDonald did everything she could to disqualify herself for admission to become a medical assistant, a nine-month program that costs almost \$13,000 prepares students for entry-level positions.

When lousy grades and prior drug use weren't enough to get her rejected, she tried a different approach. She told them she had a "problem with blood." The representative told her that "98 percent of our students have a problem with blood. The first day of the module, they don't hand you a syringe and say, 'Go for it.'

The school did require the associate producer to take an admission test. She intentionally flunked it, getting just 7 out of 50 questions correct. But the school allowed her to take another test with different questions. This time, the admission

representative said she had doubled her score to 14 out of 50, and that was just good enough to qualify for admission.

Although it was easy to get in, all the counselors told MacDonald she would have to work hard and attend class to complete the course. But Hanson says what CEC is most interested in is tuition.

"They want to say that the student comes first, but I think it becomes obvious to anybody that works in the school, that the student does not come first," says Hanson.

Where does the student come? "The student comes with how many dollar signs are attached to them. And anything after that is secondary," says Hanson.

CEC is not the only publicly traded career-school operator in trouble with the federal government. Last fall, the Department of Education handed out its largest fine ever—\$9.8 million dollars to the Apollo Group and its University of Phoenix for admitting unqualified students to boost enrollment.

And a year ago, federal agents raided the headquarters and 10 campuses of ITT Educational Services, investigating charges of falsified grades and attendance records.

Nick Glakas is president of the Career College Association, a Washington lobbying group that represents 1,100 career colleges in the United States.

"This is not an industrywide problem. And let me address the whole question of being under investigation," says Glakas. "Allegations from a legal standpoint are not facts and are not evidence."

Glakas says career colleges are a passport into the middle class for millions of people, a gateway to the American dream.

"Twenty-five percent of our students are working adults. Fifty percent are minority. Seventy percent are the first in their family to go to college. This is an extraordinary success story," says Glakas.

Rep. Maxine Waters, who represents the poorest district in Los Angeles, isn't so sure. For the past 15 years, she's been the industry's most persistent critic.

"I have seen young person after young person who simply wanted to get trained for a trade, for a job, get ripped off," says Waters.

Why hasn't anything been done? "These private post-secondary schools are very sophisticated in its politics, and they actually have members of Congress who protect them," she says.

Over the past two years, career colleges and lending institutions that benefit from government-backed student loans handed out more than a million dollars in campaign contributions to members of the House Education Committee. Half of that money went to the committee's two ranking members: Chairman John Boehner of Ohio and Buck McKeon of California. Both declined requests for interviews.

As for the sales reps whom 60 Minutes spoke with, Barry Ross has filed a discrimination lawsuit against CEC. Eric Shannon now works in finance, and the young man is the sunglasses is selling cars.

And the Brooks College graduates? They feel betrayed. They were sold the idea that an investment in education would change their lives. This investment did, but not in the way they were promised.

"My mother told me to declare bankruptcy and I'm only 21," says Thurston. "She said it'll go away in 10 years so when I'm 31 I can start my life all over."

"But we are all students that did everything we were supposed to, we gave it our all," says Amanda Harris. "And we're still jobless. You know, like, it doesn't make sense."

<http://www.cbsnews.com/stories/2005/01/31/60minutes/main670479.shtml>  
CBS News Online

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Chairman BOEHNER. Mr. Rhodes.

**STATEMENT OF DAVID RHODES, PRESIDENT, THE SCHOOL OF VISUAL ARTS, NEW YORK, NY**

Mr. RHODES. Chairman Boehner, Ranking Member Miller, Representative McCarthy, and Members of the Committee, I would like to thank you for providing me the opportunity to testify before you today.

As you know, I am a Middle States Commissioner. I am also Vice Chair of the Regents Advisory Council, which is the body that evaluates and recommends actions to the New York State Board of Re-

gents in its capacity as an accreditor recognized by the Secretary of Education for Title IV purposes. I am also a board member and Chair of the Federal Affairs Committee of the Association of Proprietary Colleges, APC, which is an organization that speaks for most of the proprietary colleges in the State of New York. Finally, I am the President of the School of Visual Arts, an independent college of art with an enrollment of 2,900 undergraduates and 350 graduate students, whose mission is to help educate the next generation of artists.

A rigorous arts education is sufficiently costly that SVA, although a privately held, for-profit institution, has never paid dividends to its stockholders. All of SVA's surpluses are reinvested in the education of its students. For purposes of my testimony today, I am only representing SVA and APC, and I am not speaking on behalf of Middle States or the Regents.

A word about my master's programs. We currently receive in excess of 1,200 applications for less than 200 spaces available in the graduate programs. Two of the programs are ranked in the top 10 in areas of specialization in the U.S. News and World Report issue of 2003 devoted to graduate programs in the arts.

New York State is unusual in that as the draft of the statewide master plan points out, "All colleges and universities in New York, public, nonprofit, and for-profit proprietary, are members of the University of the State of New York." the degree-granting institutions comprise two public university systems—the State University of New York with 64 campuses, and the City University of New York with 19 colleges—144 independent not-for-profit colleges and universities, and 441 proprietary, for-profit colleges. Plus, there are four sectors of higher education in the State of New York.

Recognition as a member of the higher education community in the State of New York has always had significant advantages for the students who attend those institutions. One of the chief advantages is the eligibility of those students for the Tuition Assistance Program, TAP, the largest State grant program in the country. TAP provides grants of up to \$5,000 per academic year to needy students based upon the student's or the student's parents' New York State net taxable income. The purpose of the TAP program is to both foster access to higher education and to permit students to choose the college best suited to their needs and interests with less concern for price.

The equitable treatment of students and institutions has led to an enviable college-going rate in the State of New York of 68.7 percent, which is only exceeded by North Dakota at 73.7 percent. It has also led to a vibrant mix of institutions whose desire to serve the students of New York is underscored by that college-going rate.

Similarly, the State makes most other grant programs such as the Liberty Partnership Program, a program designed to increase high school graduation rates, available to all members of the higher education community. The State's inclusiveness even extends to the Dormitory Authority which issues bonds to build educational facilities throughout the State. All four sectors can receive funding through the Authority.

What we seek today is the same recognition from the Federal Government that we already receive from our own State govern-

ment. In fact, what we seek today is simply recognition of reality, the reality of the changes in higher education in the last 30 years, and the reality that an institution's corporate structure does not determine its status as a higher education institution. We understand that the notion of the single definition is controversial for some, because of the eligibility for titles other than Title IV.

There is a notion sometimes expressed that for-profit institutions are somehow less worthy of government support than public or not-for-profit institutions. This is a deeply ingrained prejudice, but one I would hope you would agree, upon reflection, is incorrect. This prejudice would disappear if you were to think of these funds as contracts and not grants.

The Federal Government contracts with for-profit institutions for all kinds of goods and services—the largest area, of course, being military procurement—almost all of which is done with for-profit entities, various departments of government, contractors, universities, public, private and proprietary, to provide services for a fixed number of students, usually at a fixed price. The various titles are no different. The institutions applying for and receiving these contracts and grants are obligated to spend the money and invest these monies only in ways that will benefit students. To use the monies in any other way would be to violate the terms of the contract.

I see that my time is up, and I look forward to your questions. Thank you.

Chairman BOEHNER. Thank you.

[The prepared statement of Mr. Rhodes follows:]

**Statement of David Rhodes, President, The School of Visual Arts, New York, NY**

Chairman Boehner, members of the Committee, I would like to thank you for providing me the opportunity to testify before you today. My name is David Rhodes. I am a Commissioner serving as a member of the Commission on Higher Education of the Middle States Association of Colleges and Schools (MSA). Additionally I am the Vice Chair of the Regents Advisory Council, which is the body that evaluates and recommends actions to the New York State Board of Regents in its capacity as an accreditor recognized by the Secretary of Education for Title IV purposes. I am also a Board member and Chair of the Federal Affairs Committee of the Association of Proprietary College (APC), which is an organization that speaks for most of the proprietary colleges in the State of New York. Finally, I am the President of the School of Visual Arts (SVA), an independent college of art with an enrollment of 2900 undergraduates and 350 graduate students whose mission is to help educate the next generation of artists. A rigorous arts education is sufficiently costly that SVA, although a closely held for-profit institution, has never paid dividends to its stockholders. All of SVA's surpluses are reinvested in the education of its students. For purposes of my testimony today I am only representing APC and SVA. I will not be speaking on behalf of MSA and The Regents.

The School of Visual Arts was founded in 1947 in the wake of the GI bill of rights. It was originally called the Cartoonist and Illustrator's School (C & I). Some of its earliest graduates went on to make their careers in the world of the arts, most prominently at Mad Magazine. In 1956 C & I changed its name to the School of Visual Arts (SVA). In 1972 the School was authorized by the New York State Board of Regents to confer degrees upon graduates of its four-year programs. At that point SVA became a member of the higher education community of the State of New York. In 1978 we were accredited by the Middle States Association of Colleges and Schools. During the 1980's we began offering degrees at the Master's level. We currently receive in excess of 1200 applications for the less than 200 spaces available in the graduate programs. Two of the programs were ranked in the top ten in their areas of specialization in the last US News and World Report issue devoted to graduate programs in the arts.

New York State is unusual in that as the Draft of the Statewide Master Plan points out "All colleges and universities in New York—public, non-profit and for-profit proprietary—are members of the University of the State of New York, an entity established in the New York State Constitution that embraces all education in New York, public and private, from prekindergarten through postdoctoral. The University was created in 1784. It is governed by the Board of Regents of the University of the State of New York, an unpaid lay board of 16 members elected by the legislature to five-year terms."

"The higher education portion of the University consists of 269 public, independent and proprietary degree-granting institutions, 6.5 percent of the nation's 4,121 colleges and universities. The degree-granting institutions comprise two public university systems: the State University of New York with 64 campuses and The City University of New York with 19 colleges, 144 independent (not-for-profit) colleges and universities and 41 proprietary (for-profit) colleges... Thus, there are four sectors of higher education in the State of New York.

Recognition as a member of the higher education community in New York has always had significant advantages for the students who attend those institutions. One of the chief advantages is the eligibility of those students for the Tuition Assistance Program (TAP), the largest State grant program in the country. TAP provides grants of up to \$5,000 per academic year to needy students based upon the student's or the student's parents New York State net taxable income. The purpose of the TAP program is to foster both access to higher education and to permit students to choose the college best suited to their needs and interests with less concern for price. The equitable treatment of students and institutions has led to an enviable college going rate in the State of New York of 68.7% which is only exceeded by North Dakota's 73.7%. It has also led to a vibrant mix of institutions whose desire to serve the students of New York is underscored by the college going rate.

Similarly the State makes most other grant programs such as the Liberty Partnership Program—a program designed to increase high school graduation rates available to all members of the higher education community. In fact, it appears that there is only one State program, which does not follow this model, what is called Bundy Aid, which is reserved for independent institutions only, and has been zeroed out in the Governor's budget. The State's inclusiveness even extends to the Dormitory Authority, which issues bonds to build educational facilities throughout the State. All four sectors can receive funding through the Authority.

What we seek today is the same recognition from the Federal Government that we already receive from our own State Government. In fact, what we seek today is simply recognition of reality—the reality of the changes in higher education in the last 30 years and the reality that an institution's corporate structure does not determine its status as an institution of higher education. Rather, it is the institution's programs, and their outcomes, which determine whether an institution is recognized as a member of the higher education community. It should be patently obvious to all that institutions which grant degrees at the Associate, Bachelor's, Master's or Doctoral level are accredited by those accrediting bodies, such as the Middle States Association and the New York State Board of Regents which are recognized by the Department of Education as accreditors of institutions of higher education, should be recognized as institutions of higher education by Congress. We understand that the notion of single definition is controversial for some because of the eligibility for titles other than Title IV. There is a notion sometimes expressed that for-profit institutions are somehow less worthy of governmental support than public or not-for-profit institutions. This is a deeply ingrained prejudice, but one that I hope you would agree, upon reflection, is wrong. This prejudice would disappear if you were to think of these funds as contracts and not grants. The Federal Government contracts with for-profit institutions for all sorts of goods and services, the largest area, of course, being military procurement, almost all of which is done with for-profit entities. Various departments of government contract with universities, public, private and proprietary, to provide services for a fixed number of students, usually at a fixed price. The various titles are really no different. The institutions applying for and receiving these contracts (grants) are obligated to spend and invest these monies only in ways that will benefit students. To use the monies in any other way would be to violate the terms of the contract.

Title IV has developed a set of quite specific regulations applicable to all institutions, which have helped ensure the program's integrity. There are four that I would like to specifically highlight. The program prohibits the payment of commissions to those who help enroll students, it penalizes institutions whose loan default rates are excessive, ensuring that those institutions whose placement rates are inadequate, those whose students cannot repay loans, are soon out of the program. Title IV standards of financial responsibility ensure that insubstantial operators, with insuf-

ficient assets, are not eligible to participate in Title IV programs. Finally, Title IV has defined the length of the semester so that the integrity of the credit hour is ensured. As long as state approving agencies, accreditors and the Education Department use the tools already at hand, the public and students can be assured that they will be protected from those abuses which occurred well over a decade ago.

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Chairman BOEHNER. Mr. Carter.

**STATEMENT OF THOMAS A. CARTER, DEPUTY INSPECTOR GENERAL, U.S. DEPARTMENT OF EDUCATION, WASHINGTON, DC**

Mr. CARTER. Mr. Chairman and Members of the Committee, thank you very much for the opportunity to appear before you today to discuss antifraud laws in proprietary higher education and the issue of fraud and abuse in the student financial aid program.

The programs are growing in size. The total program dollars have doubled in the last 10 years and are evolving due, in part, to the different modes of education delivery and the move to electronic, paperless processing and delivery of funds. The oversight challenges to protect the integrity of the programs must also keep pace with innovation. Risk must be periodically identified, assessed, and managed.

Today I would like to address three issues. First, our work continues to find fraud and abuse in all sectors of schools participating in the programs; second, the critical importance of oversight in protecting these programs; and third, actions Congress can take to help reduce fraud and abuse in these programs.

With regard to my first point, through our audits and investigations, we find fraud and abuse in all postsecondary sectors. However, our investigatory resources devoted to institutions of higher education are still dominated by the proprietary sector. In my written testimony, I have given examples of the most serious types of problems we have found: refund violations, ineligible institutions, students, programs and locations; incentive compensation, professional judgment abuses, and the emerging issue of identity theft that can victimize everyone.

These findings illustrate my second point, the need for diligent and effective oversight by each of the program integrity triad components established in the Higher Education Act—the State educational agencies, the accrediting agencies, and the Department of Education. Congress envisioned this triad working together to ensure that the participating schools meet and continue to meet the program requirements.

In our work, we have found that these entities are not operating as effectively as they could be. For example, we have found that State policies for licensing and evaluating the schools vary significantly among the States. Some have stringent processes for assessing education, while others may be limited to just requiring a business license to operate.

In our work in accrediting agencies, we found that the agencies we reviewed had not established consistent and clear standards for measuring program length or student achievement. These are important indicators because program length is the basis on which financial aid is awarded, and of course, student achievement is a

measure of what the students and the taxpayers are getting for their investment in postsecondary education.

We have found inconsistent oversight by the Department. Our recent audit found weaknesses in the program review process, use of technical assistance, and with the guidance and oversight that the Department provided its regional offices. The Office of Federal Student Aid agreed with our findings and is working to implement our recommendations.

We are also in the planning phase of a joint project between my office and Federal Student Aid to take a proactive approach to identifying, assessing, and managing risks. Experts from both offices, working side by side, have identified the most significant risks to the programs. We are now establishing plans to drill down into existing data, using computerized techniques, to identify the patterns that allow fraud and abuse to occur and to recommend improvements to existing internal controls to address those risks.

Finally, I want to highlight actions that the Congress can take to improve the integrity of the student financial aid program. The single most important step would be to amend the Internal Revenue Code to allow the Department to match the income information provided on a student's application with the same income data that was reported to the IRS. The Department estimated that \$365 million in Pell grants was improperly disbursed in fiscal year 2003 because applicants for student financial aid understated their income. This lack of income verification also assists in the proliferation of identity theft. While the HEA has been amended to permit this match, a corresponding amendment to the Internal Revenue Code has not been enacted.

The reauthorization of the HEA offers the opportunity for Congress to improve the accountability of program participants and the integrity of these programs. We submitted our reauthorization recommendations last year.

In closing, I would like to thank the Committee for its interest in this topic and its continued work to protect these programs, students, parents, and taxpayers from fraud and abuse. We share your goal of making sure that these funds go to the intended recipients and are not wasted through inefficiency and ineffectiveness.

This concludes my statement, and I would be happy to respond to your questions.

Chairman BOEHNER. Thank you.

[The prepared statement of Mr. Carter follows:]

**Statement of Thomas A. Carter, Deputy Inspector General, U.S. Department of Education**

Mr. Chairman and Members of the Committee:

Thank you for the opportunity to testify about the effectiveness and enforcement of Federal anti-fraud laws at for-profit (proprietary) institutions of higher education. As you asked, I will provide recent examples of fraud and abuse that my office has identified at proprietary institutions, and I will provide examples of fraud and abuse that we found at nonprofit and public institutions. I will also comment on how receptive institutions are to our recommendations and discuss collaborative efforts between my office and the Department of Education (Department) to address the risks of fraud and abuse.

First, I would like to take this opportunity to recognize the Department for its recent success. Since 1990, the student financial assistance programs have been included on the Governmental Accountability Office's high-risk list. Those programs were removed from the high-risk list in January 2005. However, as GAO cautioned

when it removed these programs from its list, the Department must continue its progress and take additional steps to address remaining weaknesses in the administration of its programs. Because student financial assistance programs are complex and rely on numerous participants, they are inherently risky and continued oversight will be needed to identify, assess, and manage risks of fraud and abuse.

Second, I want to continue to stress the need of Congress to enact an anti-fraud law, by amending the Internal Revenue Code, to allow the Department to match the information provided on student's applications with the income data that is maintained by the Internal Revenue Service (IRS). The Department currently estimates that \$365 million in Pell grants was improperly disbursed because applicants understated their income in fiscal year 2003.

This type of fraud is a long-standing problem, which we first estimated in 1997. The problems associated with applicants' understatements of income are not limited to the Pell program. This type of fraud may result in improper payments in student loan programs; create additional burdens for institutions, to verify applicant's income; and victimize unsuspecting students and parents who are advised by unscrupulous financial aid consultants to commit this type of fraud. A match of applicant income data with IRS data could also assist the Department in addressing a growing problem of identity theft, as I will discuss later in this statement.

#### *I. Background on the Student Financial Assistance Programs*

The Department's student financial assistance programs are large and complex. The loan and grant programs rely upon over 6,000 postsecondary institutions, more than 3,000 lenders, three dozen guaranty agencies, and a number of contractors and third-party servers. Last year the Department disbursed and guaranteed approximately \$65 billion and managed a loan portfolio exceeding \$300 billion for these programs. The size and scope of the programs have increased greatly in recent years. The total program dollars has doubled in the last ten years alone. Increased variety in the delivery methods used to provide education to students (e.g., non-traditional terms or distance education), and virtually paperless electronic delivery of program funds, create new challenges to ensuring adequate oversight to identify, assess, and manage risks.

To address the purpose of this hearing, it is important to note that the requirements in the Higher Education Act of 1965, as amended (HEA), are the same for all types of institutions, except for two requirements. One of these requirements applies only to proprietary institutions, and the second applies to both proprietary and postsecondary vocational institutions.

#### *A. Statutory Provisions for Participation in the Programs*

The HEA provides criteria for an institution to be eligible to participate in student financial assistance programs and mandates the joint responsibility of a program integrity triad made up of state educational agencies, accrediting agencies, and the Department. This triad was created to ensure that institutions meet, and continue to meet, requirements for program participation:

- States provide licensing or other authorization necessary for an institution of higher education to operate within a state. A state is required to notify the Secretary whenever it revokes an institution's license or other authority to operate, and must notify the Secretary whenever it has credible evidence that an institution has committed fraud in the administration of the student financial assistance programs.
- Accrediting agencies, recognized by the Secretary as reliable authorities on the quality of education or training offered, must establish, consistently apply, and enforce standards for eligible institutions. The standards are to ensure that the institution's courses, programs of training, or study (including distance education courses or programs) are of sufficient quality to achieve their stated objective. Within those standards, an agency must assess the institution's—
  - Success, with respect to student achievement and the institution's mission, based on course completion, state licensing exams, and job placement rates, as appropriate.
  - Measures of program length and the objectives of degrees or credentials the institution offers.
  - Compliance with its program responsibilities under the HEA, by reviewing the institution's most recent cohort default rate, financial or compliance audits, any program reviews, and any other information the Secretary provides to the agency.
- The Department assesses and certifies that an institution meets the HEA's eligibility criteria for administrative and financial responsibility. In making this determination, the Department relies on the approval of the applicable State

and Accrediting agencies, annual independently audited financial statements, and compliance audits. Under the HEA, the Department must also conduct program reviews, on a systemic basis, designed to include all institutions of higher education participating in the student financial assistance programs. The Department also may rely on—

- Audits and investigations performed by the Office of Inspector General (OIG), and
- Program reviews performed by guaranty agencies (for institutions participating in the Federal Family Education Loan (FFEL) Program only).

All institutions that participate in student financial assistance programs under the HEA must meet the eligibility, certification, and oversight provisions described above.

#### *B. Additional Statutory Revenue Provision for the Proprietary Sector*

The HEA provides an eligibility criterion that is unique to proprietary institutions of higher education. Known as the “90/10 rule,” the provision requires a proprietary institution to have—

. . . at least 10 percent of the institution’s revenues from sources that are not derived from funds provided under the student financial assistance programs, as determined in accordance with regulations prescribed by the Secretary.

Compliance with the “90/10 rule” must be calculated annually, based on the institution’s fiscal year. The institution must report the calculation as a footnote to the institution’s annual audited financial statements. The institution’s independent certified public accountant is expected to test the accuracy of the institution’s assertion as part of the audit of the financial statements.

#### *C. Additional Statutory Provision for Training Programs*

The HEA provides an eligibility criterion that is unique to proprietary institutions and postsecondary vocational institutions, programs of training. These institutions must—

. . . provide an eligible program of training to prepare students for gainful employment in a recognized occupation.

This requirement does not apply to nonprofit and public sector institutions’ associate, bachelors, or postgraduate degree-granting programs.

#### *II. Role of the OIG in Program Oversight*

Under the Inspector General Act of 1978, the purpose of the OIG is to detect and prevent fraud, waste, and abuse, and to promote economy and efficiency in the Department’s programs and operations. This testimony focuses on our efforts to detect and prevent fraud and abuse in the student financial assistance programs. We also discuss the adequacy of the Department’s oversight of its programs.

Usually, we open investigations as a result of complaints or other credible evidence of risk of a potentially serious nature that may indicate fraud. Audits are generally initiated to assess specific areas of compliance, but may also be initiated as a result of complaints.

Historically, the majority of the OIG institutional audits and investigative cases have been in the proprietary sector. Over the last six completed fiscal years the majority—approximately 74 percent—of our institutional investigative cases involved proprietary institutions. So far this fiscal year, we have opened 19 institutional investigative cases, 11 of which involve proprietary institutions.

Over the same period, we have issued 44 audit reports on proprietary institutions and 32 audit reports on nonprofit and public institutions. However, during the last three fiscal years, our office decided to conduct additional audits on nonprofit and public institutions, to assess potential risks in those sectors.

You asked me to address the reception by institutions to the recommendations in our audit reports or the results of our investigations. The short answer to this question is that institutions are rarely, if ever, receptive. Our audits usually recommend the return of funds or other administrative actions, and our investigations identify violations that usually result in criminal or civil proceedings.

The following two sections of my statement provide examples of fraud and abuse in the proprietary sector (Section III) and in the public and nonprofit sectors (Section IV). The examples I provide do not include all of the violations that our office has identified for each sector, nor are the examples for one sector necessarily unique.

#### *III. Examples of Recent Fraud and Abuse in the Proprietary Sector*

Proprietary institutions have been eligible to participate in the student financial assistance programs since 1972. This sector has evolved from being predominately

vocational trade institutions, and now includes degree-granting institutions. Proprietary institutions have also evolved into two classes of institutions: some are privately held and others are parts of much larger publicly traded corporations. Both are driven by profit and can also be driven by the need for growth. Over the years, we have come to identify a relationship between rapid growth and failure to maintain administrative capability. Several examples of recent fraud and abuse follow.

#### *A. Refund Violations*

Refund violations have been a longstanding problem in proprietary institutions. We continue to identify this problem in our audits and investigations. Refunds, which are referred to as "Return of Title IV Funds" under Section 484B of the HEA, are triggered when a student ceases to attend an institution. The institution must determine if refund is owed, calculate the amount of the unearned student financial aid funds, and it must return those funds to the Department, the FFEL loan holder, or to another applicable participant in the Title IV programs within a specified number of days. Violations of this requirement occur when refunds are not paid timely, when incorrect calculations result in returning insufficient funds, and when institutions fail to pay refunds at all. Failure to pay refunds is a criminal offense under the HEA. We have found all three types of refund violations in our audits, and these violations are the most frequent subject of our investigations.

#### *B. Manipulation of the "90/10 Rule - Ineligible Institution*

Proprietary institutions must meet the "90/10 Rule" every fiscal year or they become ineligible to participate in Title IV programs. Since the institution itself performs this calculation, it is not surprising that we have identified proprietary institutions that miscalculate or devise other creative accounting schemes (e.g., fake institutional scholarship and loans) to make it appear they met this rule. When this occurs, ineligible institutions continue to participate in the Title IV programs.

#### *C. Ineligible Students, Programs, and Locations*

Our audits and investigations have identified schools that falsify student enrollment, attendance, high-school diplomas, GEDs, and ability-to-benefit exam results in order qualify the students for student financial aid. Schools also improperly received student financial assistance funds because they failed to perform (or falsified) the verification required under the Department's regulations for selected students. We have found schools that enrolled students in programs that do not meet the minimum program eligibility requirement, and infrequently but consistently, we find institutional locations that do not meet basic eligibility requirements.

### *IV. Examples of Recent Abuses in the Public/Nonprofit Sectors*

As I stated earlier, we have, over the last several years, devoted more resources to the nonprofit and public sectors. Following are three examples of fraud and abuse that we have found in those sectors.

#### *A. Ineligible Institutions, Programs, and Students*

We identified state postsecondary public institutions that were ineligible, because they were enrolling students under the age of compulsory high school attendance in the same programs as postsecondary students. We also recently issued audit reports that identified public institutions enrolling students in ineligible programs. Based on the course length, the programs were required to prepare students for employment in a recognized occupation, but the courses were not designed to do this. Our investigations have also identified ineligible students due to identification theft and other false information provided to public institutions.

#### *B. Incentive Compensation Abuses*

We issued a series of audits on nonprofit institutions where the schools had entered into arrangements with an outside corporation, the terms of which violated the prohibition on the use of incentive compensation. Although the regulations governing this issue were amended subsequent to the audit reports, the corporation and institutions entered into settlement agreements with the Department.

#### *C. Professional Judgment Abuses*

Over the last several years, we have identified abuses in the use of professional judgment by financial aid administrators. Under the HEA, a financial aid administrator may make changes to an applicant's income and expense information so that the applicant may qualify for additional funding based on unusual circumstances. We found excessive use of this exception and failure to document the decisions as required by law.

#### *V. Important Oversight Challenges*

As we noted earlier, the student financial assistance programs are complex and have many participants, including lenders, schools, guaranty agencies, collection agencies, and financial aid consultants. Following are some examples where our work has documented the need for improved monitoring or other controls.

##### *A. Inconsistent Monitoring and Oversight by the Department*

We recently audited Federal Student Aid's (FSA) use of program reviews and technical assistance as a compliance tool, as well as its headquarters' management controls over regional offices' monitoring of postsecondary institutions. We identified the following significant weaknesses in FSA's oversight:

- Weaknesses in the regional office program review reporting process, retention of supporting documentation, and consistency in the review process placed FSA at risk of failing to adequately identify and report significant instances of non-compliance and of being inconsistent and inequitable in its conduct and resolution of program reviews.
- Problems with the regional offices' documentation of technical assistance and a lack of follow-up on the results of technical assistance prevented FSA management from having the ability to measure the effectiveness of technical assistance as a compliance tool.
- FSA headquarters did not 1) provide guidance for the selection of institutions for case management, 2) monitor regional offices' compliance with internal policies and procedures for program reviews and technical assistance, 3) evaluate the effectiveness of program reviews or technical assistance conducted or the consistency of regional offices' selection of institutions for program review or technical assistance, or 4) evaluate the effectiveness of the enforcement actions taken as a result of regional office program reviews. This created the potential for inconsistent treatment of institutions across the country.

##### *B. Accrediting Agencies Lack Meaningful Standards*

In 2002 and 2003, we issued four reports on accrediting agencies, two on regional agencies and two on national agencies. Our objectives were to evaluate their standards for program length (the basis on which students receive student financial aid) and student achievement (a measure of what the Federal government is getting for the student aid it is investing in postsecondary education).

- Program Length
  - We found that neither regional agency had a definition of a credit hour that it required its institutions to follow. The standards these regional agencies applied to program length were vague and without definition, effectively allowing institutions to establish their own standards.
  - The two national agencies reviewed both had a definition of a credit hour in terms of the required hours of instruction needed to equate to a credit hour. One of them, however, did not include any requirement for outside preparation in its definition.
- Student Achievement
  - The regional agencies had not established minimum graduation, placement, and licensure rates for any of their institutions providing vocational education programs. For all education programs, these regional agencies permitted institutions to establish their own standards for student achievement, without any specified minimum standard.
  - The national agencies had established minimum graduation, placement, and state licensure rates for the institutions they accredited. However, at both we identified problems in the methodology by which the rates were calculated that caused the rates to be overstated.

##### *C. State Agencies' Inconsistent Standards*

Each postsecondary institution must be licensed to provide education by a state. The Department relies, in part, on the oversight of these state agencies to protect the students and the integrity of the programs offered by institutions within each state. We have found that state policies for licensing and evaluating institutions vary significantly. Some states have stringent processes for assessing education, while others may be limited to requiring a business license to operate. This variance in state oversight results in inconsistent monitoring at the state level.

##### *D. Limitations of Cohort Default Rate*

We issued an audit report in December 2003 in which we concluded that cohort default rates do not appear to provide decision makers with sufficient information about the rate of default in the student assistance programs. To identify defaults, cohort default rates track the cohort of borrowers entering repayment in a fiscal

year, through the following fiscal year. After the second fiscal year, subsequent defaults by the borrowers in the base-year cohort are not included in cohort default rate calculations. We found that cohort default rates appear to have been materially reduced by—

- A change to HEA's definition of default, made by the Higher Education Amendments of 1998, from 180 days of delinquency to 270 days of delinquency. This 90-day delay excludes a significant number of defaulters from the cohort default rate calculation.
- An increase in the use of deferments and forbearances. We found that deferments and forbearances more than doubled from fiscal year 1996 to fiscal year 1999 (from 10.1 percent to 21.7 percent, respectively). A previous GAO report found that deferments and forbearances more than doubled from fiscal year 1993 to fiscal year 1996 (from 5.2 percent to 11.3 percent, respectively). Borrowers in deferment or forbearance do not make payments on their loans, so they cannot be counted as defaulters, but they continue to be counted with other students in the cohort. In effect, borrowers in deferments and forbearances reduce schools' cohort default rates without establishing any intent to repay their loans.

To estimate the effect of these factors, we calculated an alternative/adjusted default rate that excluded borrowers in deferment or forbearance status and also included defaults we identified in the 90-day period following the two-year cohort period. For fiscal year 1999, the reported cohort default rate was 5.7 percent. Our adjusted default rate for that period was 8.4 percent.

#### *E. The Department Needs Authority to Implement the IRS Income Match*

As I noted earlier, since 1997, we have recommended implementation of an IRS income data match. The Department has been working with the Office of Management and Budget and the Congress for additional authorizing legislation. While the HEA has been amended to permit this match, a corresponding amendment to the Internal Revenue Code has not been enacted.

In the meanwhile, the estimate of Pell grants disbursed based upon understated income figures from the applicants is growing, from our \$177 million estimate for award year 1995–96, to the Department's current \$365 million estimate for fiscal year 2003. We urge Congress to enact this control necessary to address fraud and abuse by both applicants and institutions.

#### *F. Identity Theft Fraud by Ineligible Students*

Identity theft typically occurs on the application for student financial aid when a person intentionally uses someone else's name, Social Security number, and date of birth to fraudulently obtain student aid. People who obtain loans through identity theft almost always default on those loans.

We have experienced an increase of identity theft cases in recent years. Several of our most successful investigative cases have resulted from referrals by alert institutional financial aid administrators, and, as I describe below, we are working to make all participants in the student financial aid programs aware of this growing problem. The income data match I discussed above could help prevent fraud through identity theft in those situations where the applicant has the identifying information of someone else, but lacks the potential victim's income information.

### *VI. Our Ongoing Efforts to Reduce Fraud, and Abuse*

#### *A. OIG/FSA Joint Fraud Project*

Based upon our work, we conducted an analysis of patterns of fraud and abuse in the student financial aid programs. We supplied this analysis, and suggestions for preventive measures, to the Department in March 2003. Based on our continued concerns with fraud and abuse in the programs, and with the Department's estimates of erroneous payments under the Improper Payment Act of 2002 (consisting primarily of overpayments in the Federal Pell Grant program due to applicant income information), we planned a proactive effort to identify fraud and abuse.

Together with FSA, in December 2004, we initiated a joint project to discover and prevent fraud in the student financial aid programs. We have identified risk categories and the following three categories as areas of high risk: 1) application falsification, 2) identity theft, and 3) school risk factors. We have established three working groups, comprising a mix of OIG and FSA personnel with audit, investigative, inspection, program, and system/data knowledge. Each group is drafting plans to perform risk assessments and to research existing data from external sources and from internal sources through the use of data mining techniques. Later this year, other work groups will address risk factors specific to the student loan programs.

*B. Identity Theft Outreach*

With FSA, we developed and continue a campaign to alert students to the threat of identity theft by updating our website, [www.ed.gov/misused](http://www.ed.gov/misused), which contains information about preventing and reporting identity theft involving federal education dollars, as well as information concerning recent scams against the student financial aid programs. We also sent information about how to prevent identity theft to guaranty agencies and to over a thousand campus security websites and college newspapers. With the assistance of the Arizona Department of Public Safety, we produced a DVD, "FSA Identity Theft: We Need Your Help," featuring an individual incarcerated for student aid fraud who describes the techniques he used to steal identities. We are using this DVD in our continuing outreach campaign and have provided copies to FSA and individuals in the IG community. We have written identity theft articles for various publications including the International Chiefs of Police magazine, the FBI Bulletin and the Federal Law Enforcement Officer's Association 1811 Newsletter. We continue to raise this issue with all participants in the student financial aid programs at every opportunity.

*C. Data Mining Efforts*

We have recently established a cyber group in our office that will have enhanced technical capacity and access to Department data systems. Working with our analysts, that group will assess the data maintained in the various Department and contractor systems in order to identify potential fraud schemes or patterns that can be addressed in a systematic way. We plan to develop standard parameters that will allow us to search, identify and analyze data for targeting areas of fraud for investigation and to improve the Department's programs.

*D. OIG HEA Reauthorization Proposals*

In January 2004, we submitted to this Committee 20 recommendations for changes we believe are needed in the reauthorization of the Higher Education Act. These recommendations are supported by our audit, inspection, and investigative work in the student financial aid programs. We urge you to consider each of the suggestions. Several of the most significant are

- Increase the validity of cohort default rates,
- Provide a statutory definition of a credit hour,
- Require accrediting agencies to have quantitative standards, and
- Make persons convicted of Title IV fraud no longer eligible to receive student financial aid.

Implementation of these suggestions would increase accountability in postsecondary education and the student financial assistance programs, provide additional oversight tools for identifying risks, and assist in reducing fraud and abuse in the programs.

We will continue to assist the Department in its efforts to identify and reduce fraud and abuse, to safeguard student financial assistance dollars, and to help ensure that these funds reach the intended recipients.

This concludes my written statement. I would be happy to answer your questions.

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Chairman BOEHNER. Ms. Dorsey.

**STATEMENT OF PAULA DORSEY, FORMER DIRECTOR OF  
ADMISSIONS, BRYMAN COLLEGE, RESEDA, CA**

Ms. DORSEY. Thank you for this opportunity, Mr. Chairman, Ranking Member Miller, and Members of the Committee.

My testimony addresses several key issues regarding the unethical practices that I witnessed. I was later terminated from my position as a result of my refusal to partake in such practices while serving as the Director of Admissions.

Please allow me to give you a little background regarding my experience so that you may have a better understanding of the circumstances and situations that evolved over the 90-day employment period.

From 1990 to 1994, I attended and earned my bachelor's degree from a private college in northeast Ohio, where I was employed as an Assistant to the Director of Admissions. I learned a great deal

about the admissions process for prospective students and their families over this 4-year period.

In June of 2004, I was induced to give up a successful career of 5 years as a District Sales Manager to become employed with Corinthian Colleges. More specifically, Lani Townsend, the President of the Reseda Campus, Bryman College, painted a picture of a wonderful opportunity to allow me to once again impact and assist prospective students to achieve their dreams of further education and careers.

After becoming employed with Corinthian, I soon found out that its representations made to induce me to become employed there were incorrect. It was not until I stepped into the position and began learning the process by which Corinthian operated that I realized the extent of the unethical and underhanded proceedings that took place, all for the sake of mere admission enrollment numbers and quotas, regardless of the student's needs, desires, and hopes for a better future.

I am still amazed at the great number of instances that occurred over this short period of time. It was my lack of cooperation to partake in these unethical practices that, in the end, resulted in my early termination. While I could list numerous instances and circumstances that were out of the realm of ethics, for the sake of this hearing I will focus on those instances that directly involved the admissions and financial aid mispractices.

It quickly became very clear that the budget or admissions target number each month was the main priority on each of these campuses. A set number of enrollments was to occur that month, regardless of circumstances or lack of programs offered. For example, my team and I were to achieve a goal of over 100 enrollments for a particular month, regardless of the fact that we were not able to enroll for four of the programs that were slated to be offered, but were not, at our campus.

As each of the months came to a close, when the campuses were falling short of their numbers, certain corporate individuals would make the call to push the upcoming month's beginning enrollment dates into the previous month and babysit the new students until the actual term began. Many times, attendance records were adjusted and altered to suit the need of the school so that they could account for these "enrollments." in addition, prospective students would be enticed to visit the campus with the idea of attending one particular program, and if that program was not offered, they were strong-armed into attending another.

The pressure to enroll students was so great that they even resorted to offering free uniforms and backpacks to students to lure them into a current admissions status versus allowing them to wait for another time when their desired program might be offered.

Student financial aid was another gray area for several of the campuses. FAFSA forms were being filled out in the admissions departments with the assistance of admissions representatives. Encouragement of the forging of parent signatures was taking place. Enrollment and starting of classes for students without completed financial aid packages was taking place on a regular basis. I was then instructed to take the students out of class on a regular basis

to get them to “finish” their paperwork after they were already attending school.

Furthermore, there were continued ethics issues with the entrance exams that were to take place for all students. There were students that had never taken the exams or failed the exams sitting in class. I was instructed to clean up the files by whatever means necessary, even if it meant backdating things. When I refused to partake in such practices, I would learn that these things were being done by my admissions staff with the urging of the campus president or a member of Corinthian’s corporate staff without my knowledge or approval.

When a prospective student was not awarded what they felt to be a suitable financial aid package, students were pushed to improperly obtain Social Security numbers and signatures of other family members by whatever means necessary for the hopes of getting a better financial aid package. One particular instance that I remember vividly was a young lady that left her home because of an abusive father. Her mother was an illegal alien, and the corporate person asked her to please go get her father’s tax documents without his knowledge and then have her mother sign her father’s name. For achieving this feat, she was given two uniforms and a rolling backpack for her troubles.

Furthermore, the potential of having a “60 Minutes” reporter appear at one of our campuses sent the entire corporation into a tail-spin of cover-up tactics that had to be prepped for with a 2-hour conference call followed by a 1-hour meeting. Certain students were to be taken to the financial aid office so that the media could not have access to them. Again, these are merely a few instances during my brief, but grueling time with Corinthian.

In closing, I urge that further investigation and a higher standard of regulations be sought after in regards to the for-profit career college sector.

I welcome any additional questions the Committee may have.

Chairman BOEHNER. Thank you.

[The prepared statement of Ms. Dorsey follows:]

**Statement of Paula L. Dorsey, Former Director of Admissions, Bryman College, Reseda, CA**

Mr. Chairman, Ranking Member and Members of the Committee,

My testimony addresses several key issues regarding the unethical practices that I witnessed. I was later terminated from my position as a result of my refusal to partake in such practices while serving as the Director of Admissions.

Please allow me to give you a little background regarding my experience so that you may have a better understanding of the circumstances and situations that evolved over the 90 day employment period.

From 1990–1994, I attended and earned my Bachelor’s degree from a Private College in Northeast Ohio, where I was employed as an Assistant to the Director of Admission. I learned a great deal about the admission process for prospective students and their families over this four year period. Most importantly, I gained a great respect and understanding for the difference and impact I was able to have in helping students achieve their dreams and begin a successful journey of higher education.

In June of 2004, I was induced to give up a successful career of five years as a District Sales Manager to become employed with Corinthian Colleges. More specifically, Lani Townsend, the President of the Reseda Campus, Bryman College, painted a picture of a wonderful opportunity to allow me to once again impact and assist prospective students to achieve their dreams of furthering their education and ca-

reers. After becoming employed with Corinthian, I soon found out that its representations, made to induce me to become employed there, were incorrect.

It wasn't until I stepped into the position and began learning the process by which Corinthian operated that I realized the extent of the unethical and underhanded proceedings that took place all for the sake of mere admissions enrollment numbers and quotas...regardless of the student's needs, desires and hopes for a better future.

I am still amazed at the great number of instances that occurred over this short period of time. It was my lack of cooperation to partake in these unethical practices that in the end resulted in my early termination. While I could list numerous instances and circumstances that were out of the realm of ethics, for the sake of this hearing, I will focus on those instances that directly involved the admissions and financial aid mis-practices.

It quickly became very clear that the "budget" or admissions target number each month was the main priority on each of these campuses. A set number of enrollments was to occur during that month regardless of circumstances or lack of programs offered. For example, my team and I were to achieve a goal of over 100 enrollments for a particular month regardless of the fact that we were not able to enroll for four of the programs that were slated to be offered, but were not, at our campus. As each of the months came to a close, when the campuses were falling short of their numbers, certain corporate individuals would make the call to push the upcoming month's beginning enrollment dates into the previous month and "babysit" the new students until the actual term began. Many times, attendance records were adjusted and altered to suit the needs of the school so that they could account for these "enrollments". In addition, prospective students would be enticed to visit the campus with the idea of attending one particular program and if that program was not offered they were strong-armed into attending another program.

The pressure to enroll students was so great that they even resorted to offering free uniforms and backpacks to students to lure them into a current admission status versus allowing them to wait for another time that their desired program might be offered. These were items that were supposed to be reserved for the students that recommended another student to the campus, however, they quickly became tools to entice students to begin schooling immediately.

Student Financial Aid was another "grey" area for several of the campuses. FAFSA forms were being filled out in the admissions departments with the assistance of admissions representatives. Encouragement of the forging of parent signatures was taking place. Enrollment and starting of classes for students without completed financial aid packages was also taking place on a regular basis. I was then instructed to take the students out of class on a regular basis to get them to "finish" their paperwork after they were already attending school.

Furthermore, there was continued ethics issues with the entrance exams that were to take place for all students. There were students that had never taken the exams or who had failed the exams, sitting in class. I was instructed to clean up the files by whatever means necessary even if it meant backdating things. When I refused to partake in such practices, I would learn that these things were being done by my admissions staff with the urging assistance of Lani Townsend or a member of Corinthian's Corporate staff, without my knowledge or approval.

When a prospective student was not awarded what they felt to be a suitable financial aid package, students were pushed to improperly obtain social security numbers and signatures of other family members by whatever means necessary for the hopes of getting a "better" financial aid package. One particular instance that I remember vividly was a young lady that left her home because of an abusive father, however, was not considered an "independent" so to be assured that she could be packaged in financial aid, she was told, in my presence, by a corporate regional admissions director to have her illegal-alien mother take the father's tax documents without his knowledge and then have her mother sign her father's name. For achieving this feat, she was given two uniforms and a rolling backpack for her troubles.

Furthermore, the potential of having a 60 Minutes reporter appear at one of our campuses sent the entire corporation into a tailspin of cover-up tactics that each of us had to be prepped for with a two hour conference call followed by another one hour meeting. As instructed by corporate, Lani Townsend concocted an entire scenario of possibilities that could occur and what action we were to take. She proceeded to arrange an entire committee of individuals that were to follow certain protocol should a reporter come to our campus. Members of this committee consisted of the Manager of Career Placement, two teachers, one of the receptionists, and several students that were basically given a script to follow that would alter the appearance of what activities were really going on at this campus. Should the media appear, a list was distributed of several disgruntled students that were to be pulled

from class and called to the Financial Aid Office, so that they would be prevented from having contact with the media.

Again, these are merely a few instances that occurred in my brief, but grueling time with Corinthian Colleges. I relocated my family and gave up a great deal to accept what seemed to be a dream career of helping prospective students, only to find it a living nightmare of half-truths and unethical dealings that I could not partake in.

In closing, I urge that further investigation and a higher standard of regulations be sought after in regards to the For-Profit career college sector. Somewhere in the process of a need to provide citizens with quality education these corporations have found their only priority to be showcasing numbers for shareholders and turning an enormous profit.

I welcome any additional questions that the Committee may have. Thank you for your time.

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Chairman BOEHNER. Mr. Glakas.

**STATEMENT OF NICK GLAKAS, PRESIDENT, CAREER COLLEGE ASSOCIATION, WASHINGTON, DC**

Mr. GLAKAS. Thank you, Mr. Chairman. My name is Nick Glakas, and I am President of the Career College Association. CCA is today one of the largest of the 50 higher education associations here in Washington, and represents over 1,250 accredited colleges and universities and other institutions dedicated to educating and supporting students interested in career and professional education.

Prior to becoming President of CCA, I was for 10 years Senior Vice President of a Fortune 50 company here in Washington, ITT; and before that was General Counsel of the Senate Appropriations Committee. Before that, I served as Assistant Director of Enforcement at a Federal regulatory agency here in Washington.

I welcome your invitation to be here today to discuss the large, growing, and increasingly important for-profit sector of higher education.

Our extraordinary success is premised on several factors. First, we have aligned ourselves with the public's expectation that a college education should result in employability. Second, we have met the insatiable desire for more education by the nontraditional college student who is older, married, employed, and more concerned with education as a means to economic security and professional success.

Third, we have worked closely with employers of our graduates to tailor our programs to their needs. And finally, we have offered a new approach to higher education based on technology, flexibility, economy, and a commitment to both educational quality and student service. This is why the for-profit sector of higher education is thriving and will continue to grow and expand.

Career colleges and universities presently constitute almost one-half of the 10,000 postsecondary institutions of higher learning in this Nation. Of the more than 6,000 such institutions that are approved by the U.S. Department of Education to participate in Federal student aid programs, more than 2,500 are career colleges and universities, or 40 percent of all of the accredited institutions of higher learning. These colleges educate nearly 2 million students each year in more than 200 disciplines, including rapidly changing and growing fields such as health care, information technology,

business administration, commercial art, and hospitality management. Career colleges cover the gamut of higher education from short-term certificate and diploma programs to associate and bachelor's degrees to master's and doctoral programs.

Our student body is diverse. Half of our students are minorities and a quarter are single parents. Seven in 10 are the first in their family to go to college. One-quarter of our students are working adults. Fifty percent are 30 years of age or older. Half have some type of previous postsecondary education. Two out of three are females, and three-quarters are employed while in school.

Having said this, what does such a person really look like? I refer you to page 1 of the appendix of my written statement where the author says, a typical student pursuing a degree from a for-profit university fits the following demographic profile: 27-year-old female, ethnic minority—that is, African American, Hispanic or Asian—U.S. citizen, married, with one or two dependents, holding a full-time or part-time job while going to school full-time, and having some prior college experience.

This student did not excel academically in high school and had mixed success in prior college work, but has come to the realization that a college degree is the most sensible and effective route to a better job, a higher standard of living, and opportunities for career advancement. She is motivated and serious about education for perhaps the first time in her life. She sees higher education as a means to an end, a practical step toward a better future, greater economic security, and more options in life.

In pursuing her degree, she is struggling to juggle the responsibility of school, work, and family. How long this will take and how much it will cost are all vital questions for her. She is financing her education the same way most students do, through a combination of financial aid grants and loans and personal savings.

Mr. Chairman, many of the Nation's industries are dependent on these very graduates. For example, the health care industry, which comprises one-seventh of the U.S. economy, is heavily dependent on the education and training provided by career colleges. With the exception of the doctor, virtually everyone in the medical office, clinic or hospital is or can be trained at a career college. This includes the hospital administrator as well as the receptionist, the nurse as well as the x-ray technician, the file coding clerk as well as the EKG specialist.

Similarly today, the Nation's Intelligence Community is heavily dependent on the many information technology graduates of career colleges and universities. Five years ago, at the request of the Director of Central Intelligence, a coalition of CCA member colleges and universities met with officials at CIA headquarters to prepare a program to address the lack of entry level IT professionals at that agency. Today, the various agencies of the Nation's Intelligence Community are the top employers of many of the IT graduates of these colleges and universities.

CCA's award-winning foundation has several scholarship programs available for students attending participating member institutions. Why? Because our universities and colleges receive no Federal or State funding and have no endowments. We have awarded over 30 million in the past 7 years to high school graduates from

9,000 high schools around the country to attend career colleges and universities. The foundation's adult scholarship program is funded by Fortune 500 companies interested in hiring graduates of our colleges and universities like Lockheed Martin and Mercedes Benz. Our newest military scholarship program is for all active duty or honorably discharged veterans, but especially those serving in or returning from Iraq and Afghanistan.

Let me now turn to the recent "60 Minutes" program which aired January 30. This program focused on Career Education Corporation and briefly mentioned two other companies in the for-profit sector. Since I was profiled as our sector's representative to provide some balance to this program, let me share with you some observations from the viewpoint of one who was interviewed on camera for 40 minutes by Steve Croft, but whose actual appearance was limited to 30 seconds.

First, whatever description could be applied to the program, balanced it was not. This will not come as a surprise to anyone, since "60 Minutes" is not known for objective presentations. In fact, the very day I was being interviewed by Steve Croft in our conference room, every newspaper in America was carrying a front-page story about the four CBS executives who were fired because of errors in the "60 Minutes" piece on President Bush's military service in the National Guard.

And speaking of errors, take, for example, Steve Croft's interview with the three graduates of Brooks College. All three women unequivocally stated that Brooks did not help them find a job. In point of fact, as I learned later, Career Education Corporation had documentary evidence and had brought it to the attention of "60 Minutes" that all three women were repeatedly offered assistance from CEC's career services office. Similarly, the allegations by former employee Tami Hanson were also misleading.

In the program, Steve Croft introduced Ms. Hanson as "The national manager in charge of student placement for all Career Education Corporation campuses in the United States." Ms. Hanson then went on to make a number of allegations with implications that she was fired for raising these concerns. Again, "60 Minutes" did not let the facts get in the way of a dramatic story. In fact, as I later learned, the position of National Vice President For Career Services was not held by Ms. Hanson; rather, she was one of just several people who worked for that person. Nor was Ms. Hanson fired.

Second, in the 39 minutes and 30 seconds of my on-camera interview which remained on the cutting room floor, I repeatedly pointed out to Steve Croft that this investigation could never be considered an industry-wide problem, as he repeatedly intimated, since there are currently 4,500 career colleges and universities in this country, 2,500 of them which are accredited; and that if even 15 or 20 campuses were under investigation, this would be still less than 1 percent.

Please remember, this program was about one public education company, two of its 82 branches, three students out of 100,000, and four employees out of 18,000. Any campus in America could find itself on the receiving end of this kind of a program.

Third, I repeatedly stressed to Mr. Croft from my own 6 years' experience as a senior enforcement official with a Federal agency here in Washington that this program was both unfair and premature. Federal investigations are always confidential. Subjects of those investigations are usually precluded from responding based on the advice of counsel, and 80 percent of such investigations are closed with no findings of violations or illegality.

Chairman BOEHNER. The gentleman's time has expired.

Mr. GLAKAS. This was an unfair portrait of a corporation that was not in a position to defend itself.

Mr. Chairman, one last point.

Chairman BOEHNER. Quickly.

Mr. GLAKAS. If I may. I would like everyone to know that our association and our 1,250 members are committed to and focused on compliance with the laws and regulations governing higher education. Why? Because we have to because of our past. We simply cannot and will not allow what happened 15 years ago to happen again.

As I told Steve Croft in the portion of my interview that was omitted from the broadcast, education and compliance is job one for the career colleges of America. Our compliance initiatives are set out at page 7 of my written statement, and at page 8 you will find a description of some of the policies and procedures undertaken by our colleges and universities to ensure they are in compliance.

[The prepared statement of Mr. Glakas follows:]

**Statement of Nick Glakas, President, Career College Association,  
Washington, DC**

*Introduction*

You may have seen or heard about the recent 60 Minutes program which aired January 30th and focused on Career Education Corporation and tangentially mentioned two other companies in the for-profit sector of higher education. If you have, then you may know that I was briefly profiled as our sector's representative to provide some "balance" to this program.

In the light of this, I thought I might share with you some observations about this program from the unique viewpoint of one who was interviewed on camera for 40 minutes by Steve Kroft, but whose actual appearance on the program was limited to 30 seconds.

First, whatever description could be applied to this program, "balanced" it was not. This will not come as a surprise to anyone since 60 Minutes is not known for an objective presentation. In fact, the very day I was being interviewed by Steve Kroft in our conference room, every newspaper in America was carrying a front-page story about the four CBS executives who were fired because of the errors in the 60 Minutes piece on President Bush's military service in the National Guard.

Second, 60 Minutes permitted the three Brooks College graduates to misrepresent the efforts of Brooks College to assist them in their efforts to find employment. In addition, the person identified as the "national manager in charge of student placement for all Career Education Corporation's campuses in the United States" did not hold that position nor was she fired for raising the concerns she mentioned on the program.

Third, in the 39 minutes and 30 seconds of my on-camera interview which remained on the cutting room floor, I pointed out to Steve Kroft that this investigation could never be considered an "industry-wide" problem since:

- There are currently over 4,500 career colleges and universities in the U.S.;
- Of these, 2,500 are Title IV eligible; and
- That even if 15–20 campuses were under investigation, this would still be less than 1%.

Finally, I repeatedly stressed, from my own six years experience as a senior enforcement official with a federal agency here in Washington, that:

- Federal investigations are always confidential;

- Subjects of an investigation are usually precluded from responding based on the advice of counsel; and
- 80% of such investigations are closed with no further action.

As such, until an investigation has been concluded, no conclusions should be drawn since no charges have been made. Of course, the entire thrust of the 60 Minutes program was that Career Education Corporation was engaged in misleading students when this is the very issue under investigation.

As if this were not bad enough, recent press coverage now alludes to this being a question of whether the for-profit higher education sector is engaged in this kind of activity. Nothing could be further from the truth.

As Winston Churchill once noted, "A lie is half way around the world before the truth can get its pants on."

Very respectfully,

Nicholas J. Glakas

March 1, 2005

#### *Executive Summary*

##### *The Career College Sector*

Career colleges comprise 46% of the approximately 10,000 postsecondary institutions in the United States. Of the colleges and universities participating in Title IV programs, private career colleges account for 38% or over 2,500 higher education institutions. These institutions annually enroll 1.8 million of the 23 million college students in the U.S. The majority of students enrolled in private career colleges attend less-than-2-year institutions. However, the largest area of growth is in 2-year and 4-year degree-granting institutions, where enrollment has increased 52% from 1995 to 2000.

While more than a quarter of our dependent students come from families with incomes over \$60,000, this sector is more likely than the non-profit sector to serve students who are independent, have incomes in the lower quartile, have parents with education below the high school level, and are racial or ethnic minorities. Seventy five percent of the students attending career colleges are employed, 70% are the first in their families to attend college, 48% percent are minorities and 27% are single parents.

For-profit institutions are pioneering a wide array of innovative program delivery methodologies such as on-line, modular, and weekend programs to complement their traditional classroom offerings. Students choose to attend for-profit colleges because these delivery methods meet their time and geographical needs, allowing them to achieve their postsecondary education goals while continuing to meet the demands of their every day lives. On average, students attending career colleges earn their associates degree eleven months sooner than students at community colleges.

Career colleges work closely with employers to determine what skills students will need to enter the workforce. According to Department of Labor projections, growth in health care services and computer support will generate many new jobs through 2010, most of which will require postsecondary training or an associates degree. A 24% job growth by 2010 is projected for occupations requiring postsecondary career training or an associates degree. This compares to the 21.6% growth projected for occupations requiring a bachelors degree.

Career college programs meet the market needs of high growth occupations such as computer support; information systems; business; nursing, dental and medical assisting; occupational and physical therapy; health technology; and legal assisting. With this marketable educational training, career college graduates will earn on average 38% more than high school graduates.

##### *The Evolving Higher Education Industry*

The United States spends more on education than any other country in the world: \$750 billion annually. Higher education alone is a \$250 billion market. More money is spent in the U.S. on education than on any other industry with the exception of health care. In fact, annual education expenditures exceed both Social Security and Defense spending combined.

Without a doubt, the U.S. higher education system is the envy of the world and draws more foreign students than any other country. India, China and South Korea alone sent over 180,000 of the 500,000 foreign students who came to study in the U.S. in 2002. Future domestic demographic trends indicate that over the next 50 years the U.S. population will grow from 290 million to 395 million, immigration will increase by 80 million and the under 17 population will constitute 1 out of every 4 U.S. citizens or 100 million.

The U.S. is only one of 10 countries where one-third or more of the college-age population attends college. There are a total of 23 million students attending nearly 10,000 colleges and universities in the United States in programs ranging from short-term certificates to graduate and professional degrees. Domestic undergraduate enrollments alone are predicted to increase 13% by 2010. The global demand for higher education is forecasted to reach 160 million students in 2025.

Today's economy demands more skilled workers. However, as fewer than a quarter of U.S. adults 25 and older have a bachelor's degree, there is a significant need for specialized training. This is underscored by the salary gap of college graduates vs. high school graduates. In 1971, male high school graduates earned only 47% of what male college graduates earned. This gap has jumped significantly over the past 30 years. As of 2000, male college graduates earned 112% more than male high school graduates.

Sixty-six million adults and more than 50% of all employed persons participate in some form of continuing education. The number of "corporate" universities skyrocketed from 400 in 1988 to more than 2,000 today, including 40% of the Fortune 500 companies. It is estimated that 85% of corporate universities have alliances with institutions of higher education.

There are more than 500,000 foreign students who study in the U.S., spending \$13 billion each year. For every foreign student who studies in the U.S., there are three to five students who would consume U.S. education online, if they had the access or the resources. This is a potential of 1.6 million international distance learning candidates. Conservative estimates indicate that there will be 45 million users of online higher education in the next 20 years.

#### *The Postsecondary For-Profit Sector*

Two of the most important issues facing the U.S. higher education community are the high cost of college and the increasing amount of time required to obtain a post-secondary degree. For decades, tuition rates at public and private colleges and universities have escalated dramatically increasing at a rate significantly higher than inflation. Tuition at four year public colleges increased 47% over the past 10 years. During the same period, tuition at private colleges and universities rose 42%.

Statistics from the Department of Education also show that although more than 70% of high school graduates will attend some type of college, fewer than half of them will graduate within 6 years. And of those who enroll in a four-year degree program as full-time students, only 37% will graduate within four years. One out of two college students will transfer and attend two or more institutions during the course of their college years.

The for-profit sector provides an important addition for career-focused students, with graduation rates that meet or exceed those posted by public and private, not-for-profit colleges. For-profit colleges do not simply enroll large numbers of minority students; they provide a much higher level of student services to help these students persist and succeed in their studies. As a result, the completion and graduation rate posted by for-profit colleges is high in comparison to other sectors of higher education. Not only do students at for-profit institutions graduate at higher rates, they do so more quickly than students at public institutions.

For-profit colleges account for 25% of associate degrees and 7% of bachelor degrees earned by Hispanic students. Six percent of masters degrees earned by Hispanic students are earned at for-profit institutions. A recent survey published by the magazine "Black Issues in Higher Education" stated that Walden University, an on-line subsidiary of Laureate Education, Inc., is among the top ten producers of doctoral degrees for African American students in the United States. It ranked 8th among both Historically Black Colleges and Universities and traditionally white colleges in granting doctorates in all disciplines, and ranked 2nd in psychology, 3rd in business and management, and 3rd in the health professions.

A National Center for Education Statistics study showed that students who attained their degree at a for-profit college reported that they were more likely to earn higher salaries and have better job opportunities than those who graduated from community colleges. Three quarters of students who obtained a certificate or degree from a for-profit college reported that they were able to earn a higher salary, compared to 56% of those who attended a community college. Similarly, 78% percent of career college graduates reported that they had better job opportunities, compared to 70% of community college graduates.

#### *CCA Compliance Activities*

General Counsel Hotline—CCA members are encouraged to call our general counsel and our regulatory analyst whenever they have questions or issues of a legal, regulatory or compliance nature.

**Periodic Membership Workshops**—CCA holds periodic workshops around the country for members on a variety of subjects. The most recent compliance workshop was held for our 34 colleges in Puerto Rico on Wednesday, February 16, 2005, in San Juan.

**Senior Executive Seminars**—Presentations were recently made on the compliance requirements of the new Sentencing Commission Guidelines at CCA senior executive member meetings in Cabo San Lucas, December 1–4, 2004, and in Beaver Creek, CO, on January 30–February 2, 2005.

**Corporate Compliance Roundtable**—A conference call is held each month with our general counsel, regulatory analyst and the compliance officers of our member institutions to discuss various aspects of compliance programs as well as to share information on emerging issues.

**Public Company Compliance Roundtable**—A similar conference call is held each month by our general counsel and regulatory analyst with the senior compliance and enforcement executives of our public education companies to discuss issues and recent developments of importance.

**Member “Issue of the Month” Conferences**—These are held for the general membership on various topics of interest. Presentations are made by conference call and webcast on topics such as satisfactory academic progress, verification, and FERPA.

**Leadership Institute**—Once a year CCA holds a six-day program for rising managers and executives. Programs are presented by experienced college presidents and directors on all aspects of college operations, including compliance and enforcement.

**CCA Library**—All meeting material regarding compliance and ethics training are available on the CCA web site for members only. The library includes model ethics and compliance policies, audit checklists, employee training materials and other helpful information.

**CCA Institute**—Recently created by the CCA Board of Directors, the Institute will develop training materials and compliance programs to be offered to our member colleges to ensure that their faculty and staff understand that compliance is everyone’s job.

#### *Compliance Activities of CCA Members*

CCA members use a variety of methods to ensure compliance with law, regulations, accrediting criteria, and institutional policies. Examples of such methods include:

**Code of Business Ethics and Conduct**—These codes clearly inform employees of the importance of ensuring compliance and instruct employees on how to report possible violations. The Codes also reinforce the importance to top management of all employees complying with the highest business standards.

**Corporate Compliance Officer**—Larger CCA members often have a full-time corporate compliance officer, with a reporting relationship to the Board audit committee. Smaller members often designate a corporate manager to perform the functions of the compliance officer.

**Employee Helpline or Hotline**—Many of our larger members use an independent contractor to provide a system that is available 24/7/365 to receive anonymous reports from any employee of suspected unethical or illegal conduct. CCA is working with several of these firms to establish an affordable group rate for our smaller institutions.

**Internal Audit**—In addition to the required annual compliance audit, colleges use an internal audit process to closely monitor compliance at the campus level. The internal audits may be performed by corporate officials or independent contractors.

**Employee Training**—CCA members train employees in the admissions, career services, and financial aid departments when they are initially hired and on an ongoing basis to ensure that they understand the legal and regulatory issues relating to their jobs. Methods for training may include videotapes, webcasts, conference calls, as well as in-person sessions.

**Sarbanes-Oxley Compliance**—CCA members that are publicly traded are fully engaged in the process of compliance with Sarbanes-Oxley, including the provisions relating to certification of internal controls.

**Compliance with Sentencing Commission Guidelines**—CCA members, both privately held and publicly traded, are working to strengthen their compliance programs in accordance with the recent changes to the Sentencing Commission Guidelines.

**Third Party Shopping**—Some of the firms that work with CCA members will pose as potential students to evaluate the accuracy and appropriateness of statements made on the telephone by admissions representatives.

**Ensuring Accurate Information to Students**—CCA members provide catalogs and enrollment agreements to prospective students to ensure that they are given accurate information about the institution and its policies.

#### *Scholarships and Financial Assistance*

The Career College Foundation (CCF), established in 1982, provides for a number of scholarship awards and financial assistance programs for high school graduates, adults and military personnel attending career colleges and universities.

##### *Imagine America Scholarship Program*

This award-winning scholarship program annually provides scholarship support to graduating high school seniors attending participating member colleges. Since its creation in 1998, Imagine America has become the premier and most recognized high school scholarship program of its kind. With more than 30,000 scholarships awarded to high school students in more than 9,000 high schools, Imagine America has provided more than \$30 million in tuition assistance.

##### *Imagine America II Adult Scholarship Program*

Building on the success of the high school program, the Foundation in 2002 created the Imagine America II adult scholarship program. This important program works with corporate and private funding sources to secure additional aid for adult students attending career colleges throughout the United States and Puerto Rico. To date, the Foundation has secured more than \$200,000 in grants, which have supported more than 300 career college students. Imagine America II supporters include Lockheed Martin, the Sallie Mae Fund, Northrop Grumman Litton, Dell Computer Corporation, the Bridgestone/Firestone Trust, the Fields Foundation, Mercedes Benz USA and the Spirit of America Endowment Fund.

##### *Imagine America Military Award Program*

In 2004, the Foundation launched its third awards program, Imagine America Military Award Program (MAP). This innovative military awards program targets assistance to active duty and honorably discharged veterans attending participating career colleges. With 225 career colleges participating in the program, MAP operates through the assistance of our strategic partners, Military.com and PlattForm Advertising. To date, MAP awards have provided assistance to more than 200 present and former servicemen and women.

##### *Imagine America LDRSHIP Award Program*

Unveiled in 2004, the Foundation's newest program, the Imagine America LDRSHIP Award, annually honors a select group of recently discharged veterans currently attending CCA member colleges. LDRSHIP Award recipients receive a one-time grant of up to \$5,000 to assist in their education at CCA member institutions. The Foundation awarded five LDRSHIP Awards in 2004 and expects to increase the awards to seven in 2005. Funding support for this program is provided by CCA members, Lockheed Martin and the Spirit of America Endowment Fund.

#### *Important Facts about the Career College Association*

The Career College Association is a voluntary membership organization of private postsecondary schools, institutes, colleges and universities that comprise the for-profit sector of higher education. CCA's 1,270 members educate and support more than 1.8 million students each year for employment in over 200 occupational fields. Career colleges and universities graduate approximately one-half of the technically trained workers who enter the U.S. workforce each year and also provide retraining for displaced workers as well as skills upgrading for a wide variety of public and private employers.

CCA member institutions cover the full range of postsecondary education: from short-term certificate and diploma programs, to two- and four-year associate and baccalaureate degrees, to masters and doctoral programs. Some of the occupational fields for which CCA institutions provide programs include: accounting; allied medical; automotive technology; business administration; commercial art; culinary and hospitality management; information technology; mechanical engineering; and radio and television broadcasting.

Almost all CCA member institutions participate in federal student financial assistance programs under Title IV of the Higher Education Act. In order to participate, they must be licensed by the state in which they are located, accredited by a national or regional accrediting body, and approved by the U.S. Department of Education. Many CCA member schools and colleges also participate in other federal, state and local education and workforce-training programs.

In addition, over the past seven years CCA's affiliate organization, the Career College Foundation, has provided more than \$30 million in scholarships to high school graduates attending participating schools, institutes, colleges and universities through its Imagine America scholarship program. Imagine America has received several awards from the American Society of Association Executives, including the Award of Excellence and the Summit Award for innovative education and training initiatives.

The Foundation has also created an adult scholarship program funded through partnerships with key industry leaders such as Northrop Grumman, Litton, Bridgestone/Firestone Trust, Dell Computer Corporation, Lockheed Martin and Sallie Mae. Last year, the Foundation unveiled a third and fourth scholarship program to support military veterans attending CCA member institutions.

In January 2006, the Foundation plans to unveil its fifth scholarship program, Imagine America On-Line. This new award program will target financial assistance to the growing number of on-line students attending participating career colleges and universities.

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Chairman BOEHNER. I would like to thank all of the witnesses for their testimony.

Mr. Carter, the Department has a big job in keeping close tabs on how Title IV funds are being used. You have two witnesses that are at the table with you that made rather sweeping accusations about how some schools have used these resources.

And Ms. Waters, if I am correct, at one point said that the Department has done little to nothing over the last decade to protect America's students.

Can you give us a picture of the activities of the Department over the last 10 years in terms of better identifying these problem areas?

Mr. CARTER. Well, a 10-year period, of course, is quite a long time, and we generally like to speak more about our recent work. In our recent work, the last few years, we have looked at each of the components of this triad that the HEA put together. We had concerns about the accrediting agencies and how they were doing their function; we had concerns about the State licensing agencies and how they were doing their function; and we also had some concerns about the way the Department of Education was doing its activities.

In fact, the GAO, of course, had them on the high-risk list, which they were recently removed from. We have them on what we consider our significant challenge list, and at this point don't anticipate taking them off that list.

I think that the work that we have done—if you look at our compliance work over the last 5 or 6 years, it has probably leaned more toward the proprietary industry. A couple of years ago we made some changes in the way we select the work we do, primarily in the nonproprietary area. We have gone from a reactive approach in that kind of work; in other words, we would do a compliance audit when we got an allegation or referral to now taking a more proactive look at the nonproprietary industry. What this will do is bring more balance, if you will, to our work in the compliance area, or compliance audit area.

In the investigative area, over the last 6 years, it has been pretty constant that about 75 percent of our work is in the proprietary area. But even in the last 10 years, that has changed in that area. That was just an average, the 75 percent; back about 10 years ago, we were spending about—almost 80 percent of our time in the pro-

prietary area, and now that is down to—I am sorry, it was up around the 90 percent level and now it is down around the 75 percent level.

Chairman BOEHNER. Mr. Rhodes, what is your response to those who assert that by virtue of your institution's for-profit status, the school has a different mission than a not-for-profit, or public, institution and, therefore, you do not have students and education as your first priority?

Mr. RHODES. It doesn't strike me that that is true. All institutions need to live within the confines of a budget, and that includes public institutions, not-for-profit institutions, and proprietary institutions. It is the nature of the institution's commitment to its students which indicates whether or not they are placed first, and that can vary in any of those sectors, and there are tales of woe in all of them.

Mr. RHODES. And that can vary in any of those sectors; and there are tales of woe in all of them.

If I could, I would like to second something that Mr. Carter said earlier about the verification of incomes with respect to Pell. In New York State our Higher Education Services Corporation already does that with respect to TAP. And in the first year it did it, it found a 30 percent error rate. Interestingly enough, that was comprised of 15 percent of the errors where people underreported their income, and the other 15 percent overreported their income and, in fact, were shortchanging themselves. So I would certainly recommend what Mr. Carter has proposed. I think it may save a lot of money, but it also may, in fact, give people grants where they have simply made an error.

But I think, to get back to your question, Mr. Chairman, I don't think that the fact that I have to show a surplus—and incidentally, the size of the surplus I have to show is dictated by the Department and its regulations on financial responsibility. I would prefer to show lower surpluses than I am required to do and invest those monies in programs, but I have to show a certain percentage surplus in order to meet the standards of financial responsibility.

Chairman BOEHNER. Mr. Rhodes, under the regulations for for-profit schools, are you required to find placement, job placement, for a certain percentage of your graduates?

Mr. RHODES. I am required to have placement services available; I am required to tell those incoming students what my past experience has been and the kinds of jobs that are available. We survey alumni at 6 months after graduation, at 1 year after graduation, and we are now doing them at 5 years after graduation, 10 and 20 years. And it is those later surveys that are actually, I think, more interesting in that they show that there has been—actually, much to my surprise, frankly—that my graduates are doing better than would be expected, given the nature of the arts community. They are, in fact, earning more than the average bachelor's degree candidate—bachelor's graduate in the United States 10 and 20 years out.

We intend to continue that sort of thing. We find it very, very useful and very, very helpful.

Chairman BOEHNER. The Chair recognizes the gentleman from California Mr. Miller for 5 minutes.

Mr. MILLER. Thank you, Mr. Chairman.

It seems to me, Congresswoman Waters, that you and Mr. Carter have something in common here, and that is there is a sense that oversight is not as well structured as it might be. Is that fair to say, just for openers here, when I read both of your testimonies?

Maxine?

Ms. WATERS. Yes. First of all, Mr. Miller, let me just say that what is happening with the rip-off of poor students, minorities in particular, is a scandal in this country. And I do not want the Committee to get off focus about the 60 Minutes piece. You have been given some discussion from 60 Minutes about how they did their investigation. The fact of the matter is if I had the resources I could bring you from southern California alone, thousands of students who come to the Maxine Waters Employment Preparation Center, some of the other programs that we have, where we try and get young people mainstreamed who have already been through these schools and who have received little or no education, they now are saddled with having to pay back loans. But worse than that, if they cannot pay these loans back, they cannot get into public housing, and they are prevented from access to a lot of things simply because they owe these loans.

Now having said that, I would like to refer you to page 34 of my testimony that talks about a lack of enforcement by the Department of Education. And the problem is not that there are people applying who have incomes higher than they indicate on the applications. That is not the problem.

There are changes which can be made to existent law which would curb much of the abuse in the for-profit sector. This could be accomplished by, yes, some mandatory completion and placement requirements, as well as strict liability provisions barring fraud and misrepresentation in the enrollment process. Further, the schools should be required to disclose, chapter and verse, the jobs previous graduates obtain, the name of the employer, and their starting salaries.

The Chairman asked Mr. Rhodes whether or not he was required to give information or to do job placement, and he gave him an answer, but it did not really answer the question. No, there is no requirement that these schools have to do a certain amount of placement, and that is where the problem is, they are recruiting; I mean, they are in welfare lines, unemployment offices, they are in public housing projects talking to gang members, they are everywhere recruiting and holding out that people are going to get jobs paying 30- and \$40,000 per year; and they go through these programs and they don't get any jobs, and they are left holding the bag.

So I could go on and on and on, but the Department is pitiful in its enforcement. As a matter of fact, there are many student complaints right now against Corinthian\_\_\_\_\_

Mr. MILLER. I would just like to match this up.

Mr. Carter, if you might respond, because you have outlined a number of areas where either the information is not forthcoming, not properly organized, whether—in a whole range of areas in your testimony in terms of oversight challenges, and I just wonder if you might elaborate on that, because obviously this is—this is not a

question of whether these schools, in my mind—at this point whether they are for-profit or not-for-profit, and not whether or not they are recruiting disadvantaged young students or adults or what have you, because that is the opportunity you would like to be offered.

The question is are the facts as they are represented in whether or not people are fully informed of the situation as it is? And you raised some troubling aspects in terms of the ability to do oversight here.

Mr. CARTER. As I understand your question, obviously I am not going to speak or can't speak about any particular investigation or audit we have under way—

Mr. MILLER. I am more troubled by the generic nature of the problem you cite, with all due respect.

Mr. CARTER. And some of those, I think, are difficult to talk about at a micro level. But at the higher level, we have been reporting and are concerned that the institutions that are placed with responsibilities to oversee the industry—and that is the entire industry, and not just the proprietary industry—could be doing a better job—well, everybody could be doing a better job, I guess you could say. But we are very concerned that we are relying on these institutions to do their work, and we just don't think that they are quite measuring up.

Mr. MILLER. How do we improve that?

Mr. CARTER. Well, I think at the bottom line what you are interested in is a program that will create a well-educated student who can get a good job, or a job that they are trained to do. And if you look at the outcome that you are looking for, then that would seem to argue toward what I have heard discussed earlier today, toward placement goals or completion rate types of goals. I think those could be quite effective, and we have recommended them.

Mr. MILLER. So you would provide additional safeguards to what are currently in the law.

Mr. CARTER. I think you have to look at the whole package of what is out there. I know there has been discussion about doing away with this rule or that rule, and the question I would always ask when you are doing away with a rule is what abuse was it designed to stop? And then if you are eliminating a rule, if there is a concern that the abuse will return, then what alternative would you offer for that rule? And that is sort of the line of questioning that I would take.

Mr. MILLER. Thank you.

Chairman BOEHNER. The Chair recognizes the gentleman from California Mr. McKeon for 5 minutes.

Mr. MCKEON. Thank you, Mr. Chairman.

I was first elected to Congress in 1992, and I was put on the Education and Workforce Committee, and 2 years later I became Chairman of the Subcommittee Over Higher Education. And in that 12 years I have learned a lot, and there is a whole lot more I still need to learn. But one of the things that I have learned is in 1965 we passed the Higher Education Act, and it was to expand accessibility and give people an opportunity to get a higher education, to improve their individual life, which collectively improves the country. And I visit lots of schools, talk to lots of teachers, ad-

ministrators, school presidents, board members, and I see lots of good things happening around the country in the proprietary and in the public and in the private school system.

It really somewhat grieves me to hear about people that are taking advantage of that and taking advantage of students. And I am convinced, with my visits and my investigation, that this is a small percentage, but I would like to see that small percentage eliminated both from proprietary and from public and private schools because they take advantage of resources that should be going toward the students, and I think we should do everything we can in our power to eliminate that.

Having said that, I also feel badly that this seems to be focused on just proprietary schools, because I see problems in both sectors. I mean, when we talked about people that can't get jobs, I see the same thing with people that are 4-year graduates of very good universities—maybe they pick a subject to get their degree in that doesn't have a lot of job demand.

So I do see it across the board. But we could spend a whole lot of time talking about education and philosophy. I would like to just ask a couple of questions.

Mr. Rhodes, your testimony speaks passionately about your institutions being treated equally with other degree-granting institutions. What do you say to those on this Committee that say you should not have the right to compete for funds provided in the Higher Education Act?

Mr. RHODES. I cannot see any reason why we shouldn't. All of those funds, even when they go to the institution, ultimately improve the life, welfare and program of students. So even though they are called institutional funds, they are really all about making students' lives better.

Most of those funds are competitive in nature, and we either write reasonable and decent proposals and are eligible for the funds, or we don't and we are not. And that is a level playing field, and that is really all we are asking for. And it seems to me that that is both reasonable and a recognition of the changes in higher education that have occurred in the last three or four—three decades.

Mr. McKEON. Several years ago I visited your school, some others in New York, and I have been back there since and visited your schools, and I think—it looks to me like you are doing an outstanding job. At the same time, I have a school right within a mile of my home that is a private art school, and they are doing an excellent job. And it seems to me that we have too many students being turned away from education, and we would much better, I think, do a better job of focusing on how we could all support each other rather than the traditional schools condemning the for-profit schools or private schools condemning the public schools, you know, this kind of thing. I think we should work together to try to see how we can improve education for this country.

Mr. Carter, have you seen any improvement in the—you do say that it seems to be less of a problem in the last few years, fraud and abuse. Is that a trend that you think is heading down? Are we doing a better job, or do we need to do—continue to do more in the oversight area?

Mr. CARTER. Well, keep in mind it is almost impossible to calculate what the total amount of fraud and waste would be.

Mr. MCKEON. So it affects other parts of the government, also.  
Mr. CARTER. Yes.

Mr. MCKEON. And private industry.

Mr. CARTER. Yes. I guess the way I would answer that question is, in talking to people who were around in the early 1980's and heard many of these stories, some of which have been repeated this morning, or this afternoon, I don't think there is any doubt that the rules have worked. How much they have worked, how much fraud they have saved over the years, it would be impossible to say. And I would like to think they would keep working, or other rules like them would work.

Mr. MCKEON. I see my time has expired, Mr. Chairman. I would like to come back to this if we have time later and find out what rules specifically you are talking about have worked.

Chairman BOEHNER. The Chair recognizes the gentleman from New Jersey Mr. Andrews for 5 minutes.

Mr. ANDREWS. Thank you, Mr. Chairman. I thank the witnesses for their testimony. It is especially good to see my colleague Ms. Waters, who I came here with in 1990.

We have a very serious responsibility that whenever there is fraud committed against a student, against taxpayers, to root it out and stop it; and I think everyone up here takes that responsibility very seriously.

I agree with Mr. Miller's comment, that in my eyes it is not a matter of for-profit versus nonprofit, it is a matter of legitimate versus illegitimate, and I think we have a very important responsibility to focus on evidence of illegitimacy.

We also have a responsibility not to legislate based on anecdote, but based on record. In instances of specific grievances, there are institutions and agencies set up to hear those grievances and reach a conclusion. It is our job to look at the systemic record; and with that in mind, I wanted to ask Mr. Carter a couple of questions based upon the work that his office has done.

Did I read your testimony correctly that in the last 6 fiscal years there were 44 audit reports in the proprietary sector and 32 in the nonprofit or public sector?

Mr. CARTER. That is correct.

Mr. ANDREWS. And am I to understand that investigations are a larger universe than audit reports; in other words, you conduct some investigations where there is not an audit report issued?

Mr. CARTER. That is correct.

Mr. ANDREWS. So there were 76 audit reports in the last fiscal years. How many investigations were there from which those 76 audit reports were generated?

Mr. CARTER. We don't have a way to determine that, sir. If we are doing a compliance audit and we find fraud, then we open an investigation, but we don't capture that piece of data, how many audits become an investigation. But I—

Mr. ANDREWS. You don't know it, or you don't have it?

Mr. CARTER. I don't have it, and our data base doesn't capture that.

Mr. ANDREWS. Wow. I mean, one thing I would suggest is that we find a way to make your data base capture that so we can get a bigger picture of what the complete picture looks like.

Of the 44 audit reports that were issued on proprietaries, how many of those resulted in criminal prosecutions?

Mr. CARTER. An audit report would never result in a criminal prosecution; it might end up being an investigation which, of course, would be a criminal prosecution. But again, I don't have a count of how many audits might have led to an investigation.

Mr. ANDREWS. Is there a way to know that number or not?

Mr. CARTER. I can give—

Mr. ANDREWS. I know the Department doesn't do a criminal investigation; presumably the Justice Department might pick up the evidence and lead to that. Is there a way of knowing how many criminal investigations and prosecutions there were?

Mr. CARTER. I think what we would have to do is to go back through the investigations of that time period and look to exactly what the source of that investigation was.

Mr. ANDREWS. I would ask for the record for the Committee if you could do that, and also tell us how many of the audit reports, both for the for-profit and nonprofit, resulted in a civil action being filed by the Department or any other party—Justice Department, I assume, would be a part of it as well.

Mr. CARTER. We would be glad to do that for you.

Mr. ANDREWS. I would appreciate that very much.

[The information referred to has been retained in the Committee's official files.]

Mr. ANDREWS. I understand that the office made several legislative recommendations that you want us to consider that flow off the work you have done in the last 6 years; is that correct?

Mr. CARTER. Correct.

Mr. ANDREWS. And if I read them correctly, they deal with the following areas: One is to come up with a better measure of cohort default rates. If I read your testimony correctly, it is relatively easy to hide people that may have defaulted on their loans through deferments and other practices, and you would like to see us sharpen up that definition; is that right?

Mr. CARTER. Well, we do have some concerns about the way the current calculation treats forbearances and deferments.

Mr. ANDREWS. Have you made specific recommendations as to how you would like the calculation modified?

Mr. CARTER. Yes, we have.

Mr. ANDREWS. I would like to see those as well.

Second is you recommend changing—creating a statutory definition of a credit hour. Now, what is the rationale for that change; why do you want us to do that?

Mr. CARTER. Well, basically the accrediting agencies are—well, let me go back a step. The credit hour is the way of measuring the quantity of education that we are getting, and right now we don't have a good definition of the quantity.

Mr. ANDREWS. I would very much appreciate further extrapolation on the other legislative proposals. I think it is very important that we distinguish between anecdote and systemic problems, and I think you would be very helpful to us in doing that. I appre-

ciate the specific recommendation, since I would note very often go to the way we write the rules, not the way the providers of education are treating those rules. I think some of the weaknesses you have identified emanate with us, and what we ought to do is take a very hard look at correcting those definitions.

Thank you, Mr. Chairman.

Mr. McKEON. [Presiding.] Thank you.

Mr. Castle.

Mr. CASTLE. Thank you, Mr. Chairman.

I, first of all, agree with Mr. Andrews on a lot of—in that I do think we need to understand our facts as well, better than we do. I think it has been an interesting hearing, but it has been a disappointing hearing to me to a degree in that we have had very few recommendations other than some want to protect the 90/10 rule and the 50 percent rule and the single definition; but I am not sure if a case has really been made for that here, nor has the case been made about what we might do alternatively to make sure that enforcement is in place.

The Chairman—not Mr. McKeon, but Mr. Boehner—was talking earlier, casually, and mentioned, you know, any time you are dealing with that much money, you are obviously going to have some issues to worry about. He is right; it is \$250 billion, as I recall, that we are dealing with in higher education. And there are probably problems in the not-for-profits as well as the for-profits, but I have had some serious doubts about this legislation that we considered last year. I have some doubts about it this year.

On the other hand, I think the for-profit institution can serve a very valid purpose if done correctly, particularly because I think the characterization of what the typical student is like by Mr. Glakas is probably accurate in terms of people who have been out of school for a while, who want to advance themselves, are probably reasonably ambitious; but on the other hand, if indeed they are being lured into an education that is not going to be profitable for them, if it is not a substantive education, and they are not going to get a substantive job on the other end, then frankly I am not interested in seeing that institution get 1 penny of Federal dollars, to be very candid. And that concerns me a great deal in terms of where we are going.

We are dealing with, I think, 4,500-plus of these institutions, and I do not know this, but I bet there is a range in terms of who does it correctly and who does not, just as there is generally in any field, and I worry about what that range is and what we don't know about it; and I think we have to learn that as well.

I do think for-profits are different because each student registered represents dollars, and when you represent dollars, you are going to have people who are going to go out there, and they are going to multiply by a number, then you get to a higher number, and that is your revenues. And then you have got to subtract the cost of running your school, and that is a profit.

And I do not agree with what Mr. Rhodes said earlier, as a matter of fact, when he said all the funds improve the life and welfare of the students. Well, they also improve the bottom line. I mean, I am looking at some bottom lines right here of these institutions that were pretty nice just for the last quarter, as well as the last

5 years in some instances. So we are dealing with something different.

Is that necessarily evil or bad? No, it is not. But we have got to put it on the table, and I just don't think a discussion has been on the table—not just here, but in general—with respect to what we are doing.

I am very interested in what Mr. Carter said about enforcement, and I would like to—I would actually have liked to have heard more from him about that. And I like the concept of matching up; and maybe it would be beneficial one way or the other of matching up tax returns put on student applications as an example, but I did not hear other suggestions today of what else it is that we might do in order to make sure that the enforcement mechanisms are in place so that everybody can feel more comfortable that we are getting a good education for the dollars which are involved.

I will go a little broader than this. I believe the cost of higher education is too high on this country. As one who has been on this Committee and has served in other governmental capacities over the years, I have got to tell you, we need to educate young people in America today. And I am surprised, quite frankly, at the cost of higher education. It is the fastest-growing cost in this country; at least it was a year ago, even more than healthcare. It is just out of hand. And I think the for-profit institutions are out of hand, too, as well as the not-for-profits, and that is something else that we have to deal with in a general way. So anything that is going to encourage that I find to be a bit of a negative. We have fraud, waste and abuse, then I think that is a problem in terms of what we are doing.

So I think we need to look at this very carefully. And I think this piece of legislation we are looking at is very, very important in terms of what we are doing. And I hope if we are going to eliminate any of this, then we are going to tighten it up someplace else; and if we aren't, then perhaps we shouldn't eliminate it in terms of the various rules that exist out there now, and we ought to go forward with doing all that we possibly can do to make absolutely sure that these students are getting their money's worth, and that certainly nobody is ripping off the Federal Government or anybody else in this particular area.

My question to anyone who wishes to try it is do you have any other specific suggestions other than what we have already heard about any enforcement mechanisms or anything else that we could do to make sure that we are giving everybody out there a comfort level with respect to the enforcement mechanisms and just the oversight, if you will, of the Federal dollars which are going out to various institutions, in this case, because of the nature of the hearing, for-profit institutions? I am looking for volunteers.

Mr. GLAKAS. Mr. Castle, I would be happy to begin this discussion.

Mr. CASTLE. Well, don't begin it too long, be very quick.

Mr. GLAKAS. I will be very quick.

There has been a sea change in this country over the last several years with regard to the fact that we have seen major corporations come under serious scrutiny, and this Congress has responded. Sarbanes-Oxley now applies to all corporations—

Mr. CASTLE. I understand all that—I don't mean to cut you off, but we don't have much time. Can you address what we are discussing here, higher education? I understand there has been a sea change in other areas—

Mr. GLAKAS. The Sentencing Commission guidelines now apply to all higher education associations in this country. They don't apply just to the for-profit sector. The for-profit sector has both Sarbanes-Oxley and Sentencing Commission guidelines. Now we are going to see whether the entire panoply of 10,000 colleges and universities understands that compliance is job one for the higher education community.

The president of Drexel University in Philadelphia last week in The Wall Street Journal said, "Higher education is a business"—this is a not-for-profit university—"Higher education is a business; we must learn to provide education the way business provides products. We live in a capitalistic society where every single industry"—

Mr. CASTLE. Wait a minute. I am going to cut you off, if you don't mind, because I just want to—I know the Chairman wants to move on, but is there anyone who has any specific suggestions?

Ms. WATERS. Yes.

Mr. CASTLE. Ms. Waters.

Ms. WATERS. Mr. Chairman, I said this, and I will say it again; first of all, the centerpiece of this legislation is about whether or not there will be a requirement that these schools have at least 10 percent paying students. I started, when I came here, with an 85/15—

Mr. CASTLE. That is the 90/10 rule.

Ms. WATERS. 90/10 rule. And they are here basically to tell you that, no, they should not have a 90/10 rule, there should be no requirement—

Mr. CASTLE. And what is your recommendation; that we keep it in place?

Ms. WATERS. Absolutely. As a matter of fact, I advocate 85/15.

Mr. CASTLE. OK. It has been 85/15 before, hasn't it?

Ms. WATERS. That is what my amendment was some years ago. The compromise, I guess, was 90/10, and now they want to wipe out the 90/10 because they don't want any requirement they have paying students. And I suggest that you hold them to having some paying students. If they are as good as they say they are, then somebody ought to be paying other than the Federal Government, student loans.

Secondly, I do think that there should be some mandatory completion and placement requirements, as well as strict liability provisions barring fraud and misrepresentation in the enrollment process.

And further, the schools should be required to disclose chapter and verse the jobs previous graduates obtained, the name of the employer, and the starting salaries. You were told here today, for example, that the CIA came to these private postsecondary—

Mr. CASTLE. You have to be brief because my time is waning, and Mr. McKeon is starting to look at me.

Ms. WATERS. OK. And asked them to train—make somebody show you where those minority students are working in the CIA

and what they are doing; don't just let them come here and tell you any old thing.

Mr. CASTLE. My time is up, so I, unfortunately, can't call on others. But if you have any specific suggestions and you want to submit them in writing, I would like to see them; or perhaps you can answer them later in the hearing at some point. I am going to have to go on, unfortunately, to another appointment. But I am interested in how we can make this the best act possible.

I yield back, Mr. Chairman.

Mr. MCKEON. Mr. Kildee.

Mr. KILDEE. Thank you, Mr. Chairman.

For the record, Ms. Waters, it was 85/15 from 1992 to 1998. During your first term in Congress we enacted the 85/15 rule. Then in 1998 we changed that to 90/10.

However, H.R. 609, which is the bill before this Committee, would completely eliminate the 90/10 rule.

Mr. Carter, would you comment on the wisdom, or lack of wisdom, on the total elimination of the 90/10 rule?

Mr. CARTER. I guess the way I would answer that is I would go slowly in eliminating any rule before I knew what the effect of eliminating that rule is, or would be.

Mr. KILDEE. You stated earlier that when you eliminate a rule, you should go back and find out why the rule came into being.

Mr. CARTER. Yes.

Mr. KILDEE. This fits into what you are saying, and I am sorry to interrupt you.

Mr. CARTER. Right. And that is why I say I think we would have to go slow. I am not arguing for 10 or 15 years going slow, I am just talking about giving due consideration to what the rule was intended to do.

If there is another rule that would work better, and I am not in a position to say what that rule is, then I think that should be considered. The concern I would have is if you just keep adding one rule on top of another, that just makes the program more complex, and that leads to another set of problems.

Mr. KILDEE. But you would be skeptical, then, on having no rule, especially since the 90/10 rule was brought into being to address the problem.

Mr. CARTER. As I understand it, the rule was put in to stop some of the abuses of schools that were offering poor programs. Ms. Waters described them very well. I would be looking to keep something that would avoid those abuses from occurring again. I have even heard the industry argue they don't want to go back to those days, and I guess everybody would agree they don't want to go back to those days.

So again, I would just argue that we consider the effect of eliminating the rule and what substitutes there would be.

Mr. KILDEE. Another question. The Committee in the 107th Congress, two Congresses back, voted to eliminate the 50 percent rules on distance learning. I remain concerned that straight elimination of the 50 percent rule could lead to increased fraud and abuse. If we do eliminate the 50 percent rule, shouldn't we ensure that there is upgraded fiscal and accreditation-based accountability?

Mr. CARTER. Well, again, eliminating a rule like that without considering an alternative, I think that would not be something that we would recommend. If you wish to eliminate that rule, then I think you have to consider what substitute there might be out there. And again, the end goal is a student has received a good education and is gainfully employed as a result of that education.

Mr. KILDEE. One other question. Your testimony mentions the fact that GAO recently removed financial assistance programs from their high-risk list. You may be aware that the GAO issued a report of the School As Lender Program only a few days before these programs were removed from the high-risk list. This report scolded the Department of Education for a complete lack of oversight over the School As Lender Program. Don't you find it curious that a few days after such a report, the GAO says that the Department's financial assistance programs are on sound footing?

Mr. CARTER. I really wish to not comment on why GAO made their decisions. I was not a part of that decisionmaking.

As I said, we decided to keep the Federal Student Aid Programs under what we consider our significant management challenge list.

Mr. KILDEE. Well, it would seem to me, and I know you have to be cautious when criticizing another agency, but when they remove them from the high-risk list and then report that the programs are not on sound footing, it would seem to me that they haven't read their own report.

Mr. CARTER. Again, I have no comment on what the GAO was thinking about when they made their decision. I think they were looking at a number of issues, and on balance they decided that they had made enough changes or had plans to make enough changes that it warranted taking them off the list.

Mr. KILDEE. Let me put it another way: Do you think they were warranted in taking them off the list, regardless of the status of the School As Lender Program.

Mr. CARTER. Again, not knowing exactly—I am not familiar with their rationale, so it is hard for me to judge whether it was warranted or not. What I can say is that, for our purposes, we consider the program to be a significant challenge.

Mr. KILDEE. Thank you very much.

Mr. McKEON. Mr. Kline.

Mr. KLINE. Thank you, Mr. Chairman. And thank you, all the witnesses, for being here today.

I love these hearings. It is always amazing to me, as we sort of try to get to the bottom of something, to find out where we really are, and I want to take a minute to see if I can do that.

We have had some anecdotal reports today, and, frankly, I agree with Ms. Waters that it is probably a good thing that we are not focusing on just the 60 Minutes report because that itself is anecdotal. And if my own experience with the show is any example, it is probably not complete and probably not fair and not balanced, and misleading.

And then we have had anecdotes here. Mr. Rhodes tells a wonderful story about the system in New York. Ms. Dorsey gives us a pretty critical anecdotal story of her experiences. Ms. Waters has said that there are tens of thousands, perhaps more, of students that are being cheated, and the taxpayers consequently being

cheated. And Mr. Glakas has given us a story that says that perhaps the problem of abuse and fraud in the for-profits is very small; I think your testimony, sir, was it may be possibly 1 percent, 15 or 20 out of 2,500.

Somewhere in here there is an answer that gives us the extent of the problem. And I think that Mr. Andrews was working down that road a while ago trying to get some measurement of how wide, how deep, how broad is this claim of fraud and abuse in higher education, and specifically in the for-profits. And I am sort of scanning the five of you here looking for that answer might come, but I have the whole gamut.

So, Mr. Carter, because you are with the Department, you are sitting in the middle, let me try again to see if you can give for us some idea of the scope of the problem of fraud and abuse in the for-profit in higher education. Are you willing to just take a stab?

Mr. CARTER. If you are asking me for a number, sir, I would not be willing to take that stab. If you want to talk about the breadth of the problem, I will try to relate to the breadth of the work we have done.

We are not only looking—we haven't really looked at just schools, we have looked at students, we have looked at lenders, we have looked at guarantee agencies, we have looked at servicers, we have looked at contractors, we have looked at the Department, we have looked at the accrediting agencies, we have looked at a great deal of the program, and I would say there is a great need for improvement.

Now does the need for improvement equate to fraud? In some cases it does. How much that is, I can't answer. But I would say that in the program—it is a very complex program, I am sure everybody knows that. It is 3,000 lenders, \$65 billion, 6,000 schools. All the statistics aren't coming to the top of my head. It is an extremely complex program with a lot of rules. And I would say that there are a number of abuses or wastes or inefficiencies, and, yes, there is some fraud, but I just can't tell you how much that fraud is.

Mr. KLINE. Mr. Glakas.

Mr. GLAKAS. Mr. Kline, I am not privy to the information that the Inspector General has, but I would submit over the last 4 or 5 years, no one has been charged, no one has been convicted. I know of no instance where a Federal agency like the Securities and Exchange Commission or an assistant U.S. Attorney around the country has indicted anyone from a for-profit school, institute, college or university and that person has been convicted. I may be wrong. I may not be privy to that kind of information; it may be out there. I do not know of any instance.

Mr. KLINE. OK. Thank you.

Ms. Waters, you had some large numbers, tens of thousands. Do you want to, with the few seconds we have left—

Ms. WATERS. Well, I don't know if I can—I am trying to communicate to this Committee that it is our responsibility to know. We should not attack those who are bringing to the attention of the Congress of the United States that something is drastically wrong. I don't suspect that 60 Minutes or anybody else can give us all of the information that we need; hopefully it will trigger this Com-

mittee to find out. When you have someone sitting before you from the Department of Education that can't tell you whether or not they have done an investigation triggered by audits, you ought to be concerned. You have a scandal on your hands, as indicated by the number of class action lawsuits, a lot of FBI investigations going on, stories in newspapers.

No, we do not have the numbers, and we shouldn't have to, or they shouldn't have to. The Department of Education should have it, and you should make them get it for you. There should be investigations. The idea that someone can sit here and tell you nobody has been indicted ought to tell you something based on all of the publicity—

Mr. KLINE. If I could just—I know my time is up, But I am pretty sure, Ms. Waters, that you indicated tens of thousands of students have been cheated, and I just wondered where you may have gotten those—

Ms. WATERS. What I said to you is I could bring to this Committee thousands—

Mr. KLINE. Thousands.

Ms. WATERS.—of students that I have experienced alone just in my district. And I am saying to you that I think it is symptomatic or representative of what is going on all over the country. Now this Committee needs to find out.

Mr. KLINE. Thank you.

Mr. MCKEON. Mrs. McCarthy.

Mrs. McCARTHY. Thank you, Mr. Chairman.

This has been a very interesting hearing, to say the least. And I guess when we started really dealing with this issue, I looked to New York. That is where I live. I look to the schools in New York. I look to the Department of Education in New York. And I know with how we run things in New York, we are not having these problems that apparently other areas of the country are having.

Now, Mr. Rhodes, President Rhodes, you run a very prestigious career college; you are on different boards that go around for the Middle States to look at colleges and universities. Are you seeing the problems outside of New York, or should we be looking here on the Committee on what we do in New York to prevent these kind of abuses? Because to me if these abuses are going on, it seems to me we should be going to two track. Somewhere the State educational system is not serving their students either with the money that we are possibly giving to those students. I would appreciate if you would answer that.

Mr. RHODES. Most of my visits have been outside of New York State. That is just the nature of my expertise and where colleges are located. I have served on teams for the Western Association and also for the National Association of Schools of Art and Design. So I have been in the north central region, I have been in the west region, and I have done a couple, actually, in Middle States. And I also have done some work for the Regents, and the Regents is also a recognized accreditor, and it is one of the accreditors that actually has definitions of what satisfactory graduation rates are. Unfortunately they are kind of low. In New York State the median graduation rate for all 2-year institutions, public, private and non-profit, is 20 percent within 2 years, and 25 percent within 3. If you

are accredited by the Regents and you do not meet those yardsticks, those requirements, your degree powers are in jeopardy.

The most recent institution that lost its degree powers did not meet those requirements, did not meet other requirements, and the Regents pulled their ability to offer programs at all, essentially closed the institution. It was a not-for-profit institution. I imagine we may find a proprietary institution in a similar position in the State of New York, but on the whole, because New York has a program registration, we seem to have less of these difficulties. In other words, you can't just walk in and decide to teach any other old thing; you have got to register the entire program with the State, the State must approve it before you can even advertise it, and then afterwards there is follow-up from the State education department. There are visits to see that it is of some substance.

Also, the State has imposed rules designed to ensure that programs which lead to licensure have minimum pass rates. For example, teacher ed programs—I have one of those—the minimum pass rate is 80 percent. If you fall below that, your program is in jeopardy. It works as a way to sharpen the mind. CUNY for quite some time was below that rate. They are now well above it; they have changed their procedures. It has made things better. Unfortunately some of the regional accreditors are not yet prepared to have these kinds of fixed targets in terms of graduation.

One of the things that I wanted to respond to Mr. Castle was even in the 60 Minutes piece, it was quite obvious that the kind of information that students need is actually readily available, it is up on the—in New York State at least it is up on the New York State Websites.

Mrs. McCARTHY. Well, again—I guess we have got to take New York out of it.

What would you think, then, if by taking some of the regulations that we have in New York State and try to put them on the Federal level so that there would be more of an even playing field in those States that don't have higher standards?

Mr. RHODES. One of Mr. Carter's recommendations, which is to define a credit hour, is something that is already done in New York State. It is done at both the undergraduate and the graduate level. And I think—New York State never had a casino dealing program of 12 weeks long that was 2 semesters, because a semester in New York State is defined as 15 or 16 weeks. And I think having something along those lines would be very helpful in ensuring that programs that are short in some way or another, either 51 weeks for an associate's degree or 2 years for a bachelor's degree—which is really an impossibility—would just not be approved in any way, shape or form, either for Federal purposes or by the local State approving agencies which should have these kinds of regulations in mind.

Mrs. McCARTHY. Thank you, Mr. Rhodes.

Chairman BOEHNER. [Presiding.] The Chair recognizes the gentleman from Georgia Mr. Price.

Mr. PRICE. Thank you, Mr. Chairman.

I want to echo some of my colleagues who have thanked each of you for coming. I especially want to thank Ms. Dorsey for coming and for your testimony. I was moved by your comments, and know

how difficult it must be to stand up and say some of the things you said, and I want to thank you for coming and sharing those with us.

By way of disclosure, I am a product of a family that is replete with folks who have completed their education at State institutions and not-for-profit institutions, and until I got out of that setting, I can honestly say that I didn't know that folks were educated where they didn't play football. So this industry is relatively new to me.

However, I also represent a district that has three—at least three institutions, for-profit institutions, in the higher ed area that are extremely successful, and they are successful both for the institution and for the students. I can bring you student after student after student that I have spoken to personally who have had an incredible experience there and have bettered their lives and might not have been able to do so otherwise.

That being said, I also share Mr. Andrews' and Mr. Castle's concerns about facts, and making certain that we have appropriate facts going forward if we are going to make any changes.

So, Mr. Carter, I have a couple of questions that I think it would be most appropriate for you to answer, and I know you have been responding to most of the questions; but you mentioned that there was, quote, need for improvement. And if one recognizes that there is need for improvement, it appears to me that one also has identified a specific problem. Therefore, my question to you is, if you have identified a specific problem, is there a common denominator that you have been able to determine at the proprietary institutions that seem to have that common problem within them?

Mr. CARTER. I think the most frequent problem we run into in our compliance work and also in our investigative work has to do with the handling of the cash, you know, making refunds, making proper calculations of refunds, making sure those refunds are paid, that sort of thing, that does pop up fairly frequently.

Mr. PRICE. That is a new point to be discussed this afternoon.

Are there changes in law or regulation that you believe would be appropriate to address that, or do you have all of the current rules that you need in order to take care of that?

Mr. CARTER. I think the rules on refunds are pretty clear, and we haven't recommended any changes in that area.

Mr. PRICE. Which brings me to my second question, and that is that you also stated that there is inconsistent oversight by the Department. I have two questions specifically. One: Why? And two: Is the same true for your oversight of nonprofit or public institutions?

Mr. CARTER. When you say "your," you mean the Department?

Mr. PRICE. Yes.

Mr. CARTER. When we looked at the Department, we found that they operate through their regional offices, and we found there was inconsistent guidance going out to those regional offices, what types of schools to look at, when to look at them, how to deal with the findings they have found, how to document their work. Those were the types of problems we have found. Those are all correctable, and, in fact, they are working on correcting them right now. We will have to wait and see if the plan they have come up with to correct those problems does, in fact, work. And we generally

would give them 2 to 3 years to get—perhaps not that long if they get the changes in. We would be going back and taking a look and see if they are more effective now.

Mr. PRICE. Is that lack of guidance and investigation true in both the proprietary and nonproprietary area?

Mr. CARTER. In our work, when we were looking at how the Department was managing its oversight role, we did not distinguish between proprietary and nonproprietary schools; we just looked at how they were doing their work, how they were identifying who they would go look at, what they were looking at on a timely basis over some sort of systematic way, that sort of thing. I don't believe that whether it was a proprietary school or not ever entered into the equation.

Mr. PRICE. And they both seem to have the same kinds of challenges or problems or lack of guidance at the Department level.

Mr. CARTER. Well, again, we didn't even look at whether there was a difference, so I don't know if there was a difference or not. The process is the same for all the types of schools.

Mr. PRICE. My time has expired. Thank you, Mr. Chairman.

Chairman BOEHNER. The Chair recognizes the gentleman from New York Mr. Bishop for 5 minutes.

Mr. BISHOP. Thank you, Mr. Chairman. And I want to thank all the panelists for their testimony.

I also want to just thank and commend Mr. Rhodes. I was an administrator at a college in New York for 29 years, and I have long been an admirer for the work at your school, and I want to commend you for that.

I want to go back to a discussion of the 90/10 rule. And I will just say at the outset that its proposed elimination troubles me greatly. The whole issue of access and affordability historically has been a partnership, a partnership shared in by the Federal Government, in some cases the State government, in some cases the family if they are up to that partnership, and in some cases the institution. And, in fact, for 7 of the 29 years that I was a college administrator, I was a director of financial aid, and I remember very clearly receiving formal directives from the Department of Education telling us that we were to administer Title IV funds in a fashion that, quote, supplemented and did not supplant existing institutional effort—I think I am quoting it exactly.

So my question is if we were to eliminate the 90/10 rule—and I guess this is for Mr. Glakas—what does that say about existing institutional effort in the proprietary sector?

Mr. GLAKAS. If we eliminate the 90/10 rule, what other protections are there?

Mr. BISHOP. No, that is not my question. My question is that—I guess the core of my question is do we not, each of us as institutions, have a responsibility to assist in affordability and access? And if we were to eliminate 90/10, we would be placing 100 percent of the responsibility for access on the Federal Government in the case of this sector; is that not true?

Mr. GLAKAS. I am not sure I understand the implications, but let me give you a practical example, Mr. Bishop. I am a native Washingtonian, lived here all my life, seen the city grow. I now see the suburbs having for-profits universities established everywhere,

DCPI Technical, ITT, Strayer growing, now having 32 campuses around, Stratford University, University of Phoenix. Nobody is moving into Anacostia. Why is that? Why isn't anybody moving into Anacostia? And the reason why is the 90/10 rule. They will not take a chance on educating students in Anacostia, all of whom could qualify, for example, for a Pell and a Stafford loan that would put the school out of business.

Let me give you a very specific example, and I apologize for the simplicity of it.

Mr. BISHOP. I generally do well with simplicity.

Mr. GLAKAS. Let's just say we were to talk ITT into moving into Anacostia, and they said they wanted to go slow; small building, 10 students, tuition \$3,000. Each of the 10 students gets their 1,500 Pell and their 1,500 Stafford loan. The school is not in violation of the 90/10 rule. They push two students out in order to bring two other students in—

Mr. BISHOP. Let me put the other side of the coin. Let us look at Long Island University, the Brooklyn campus, in the heart of downtown Brooklyn, Flatbush. That is an area that I would suggest to you is similar to Anacostia. It is a school that discounts its tuition from its own resources in the neighborhood of 20 to 25 percent. They are stepping up to their responsibility to encourage access.

And so my question is why is that a responsibility that is uniquely held by the not-for-profit sector, but under the terms of the elimination of 90/10 would not be held by the profit-making sector?

Mr. GLAKAS. That might change, that might change.

You know, Mr. Bishop, I will give you, to me, the real issue here, the nub of what we are talking about.

I came back from Vietnam in 1969. I went to Georgetown Law School on the GI bill. At that time it was only \$2,500. GI bill paid for everything. It didn't say, we will pay for 90 percent of it; you come up with 10 percent to show us that Georgetown Law School is a good school. GI bill is the greatest piece of legislation this Congress ever came up with, and the Higher Education Act was the second, because it is trying to put students who need financial assistance through school.

Mr. BISHOP. Let me ask this question directly. In terms of the sector in general, what level of tuition is discounted by the institution? I mean, I come from an institution that discounted tuition at the rate of 35 percent. So what is the average discount rate within the for-profit sector?

Mr. GLAKAS. I don't have the answer to that. I do know that the Education Department doesn't let institutional scholarships count under 90/10.

Mr. BISHOP. My question is what level of—if a school has a budget of \$30 million, or their tuition revenue is 25 million for the year, what level of that is discounted by the institution as a way of creating access?

Mr. GLAKAS. I can only tell you that I will have to come back with a written response, but I will.

Mr. BISHOP. Thank you; I appreciate that.

[The information referred to has been retained in the Committee's official files.]

Mr. BISHOP. My time is up. Chairman, thank you.

Chairman BOEHNER. The Chair recognizes the gentleman from Texas Mr. Hinojosa for 5 minutes.

Mr. HINOJOSA. Thank you, Mr. Chairman.

I want to thank the panelists for coming in to speak and to answer questions on this legislation.

My first question is directed to Mr. Nick Glakas and to David Rhodes. The proposed single definition of institution of higher education will radically alter our institutional aid programs. Instead of a capacity-building program for public or not-for-profit community-based institutions, they could be used for business development and enhancing returns to shareholders. Why should we shift the long-standing policy in this area? Discuss with me the effects that the shifting of focus and resources will have on the communities that are supposed to be served by these programs.

Mr. GLAKAS. Mr. Hinojosa, the example that I would give you would be a Hispanic-serving institution, community college, on one side of the street and a small for-profit institution on the other side of the street which has 100 percent Hispanic students. Why would you ever want to have a different playing field for those same students even though they have each chosen to go to different kinds of institutions?

I think there is a great deal of misinformation being put out about Title III and Title V. The June 16th hearing that was held here in this room, David Moore of Corinthian and Andy Worthin of Capital University both came out and told this Committee that they, as public company CEOs, were not interested in Title III and Title V. I don't know that all of our schools feel that way. But I think the critical question on single definition is very simple, and that is—

And that is the ability for the for-profit sector to offer liberal arts courses to its students. If we constitute 47 percent of the colleges and universities in this country, we have only 8 percent of the students. Why is that? We are not able to offer liberal arts. Community colleges can offer both liberal arts and the sort of technical courses that we offer, but it is not a 2-way street, and that is why single definition is probably critical to the level playing field that this Committee is looking at right now.

Mr. HINOJOSA. Let me tell you that I have to say that you are entitled to your opinion, but let me tell you some real facts and experiences that I have had in Texas. Not just my congressional district, but in Texas. We had to go to Federal court and to State court to fight for equitable funding for colleges and universities in Texas because they were not giving us enough money to be able to create masters and Ph.D. programs. The reason being that they did not have enough money is what we were told. We won. We won that litigation, and as a result of that, we had to create some colleges of engineering and other types of professional schools and colleges, but it took, it took that kind of fight to be able to make it happen.

Why would I want competition from the same pocket of money that they are competing for in Texas to be able to give us more professional schools, higher level postgraduate studies, and so forth? And my experience with proprietary schools when I was on the

State Board of Education for 10 years was, one, that they were not doing what they said they were going to do, and many of the students went through the program, they got the Federal money, came out and could not get the jobs.

So I do not have a good view of what is being proposed in this legislation, because of what it does, not only to the Hispanics and African-American students, many minority students, but for all that go through the program and then cannot find the job. I honestly believe that there is a lack of investment by both the State and the Federal Government, and to see a new group of colleges for-profit come in and be able to tap the resources that are available today, which are scarce, I think that is a serious mistake.

I would like to hear from Nick Glakas on my question. I am sorry, forgive me, from David Rhodes.

Mr. RHODES. I am sorry that your experiences with proprietary institutions in Texas has not been salutary. But it seems to me that if resources are scarce, then the best way to allocate them is by competition so that those with the strongest proposals, the most robust proposals are the ones who receive the funds, because they will use it best. They will use those funds best. If that turns out to be a proprietary institution that has an unusual idea about how to spend money, well, then that is the way it should be. If, on the other hand, it is the local or the local 4-year, public institution that has a great idea for a law school and writes a remarkable proposal to have that funded, then that is the way the money should go.

It is not a question of—I do not think we are asking for a specified percentage of the monies or monies earmarked by head count. We are only asking for the opportunity to compete, and if we do well, we do well. If we do badly, then that is where the chips fall, and that is fine with me.

Mr. HINOJOSA. I thank you for your response.

My last question goes to Paula Dorsey. In your testimony, you mentioned that you had other specific examples of unethical practices at Bryman College. Can you elaborate, please?

Ms. DORSEY. During the time—I was trying to get everything in 5 minutes. There is so much that occurred in my short time there specifically dealing with the students, the overall atmosphere of not benefiting the students. One of the things that I did not get to get into specifically, when the possibility for the 60 Minutes interview came up, we were all briefed and debriefed over and over. A scenario and a cover-up was made, and basically, they were to follow that scenario. I was told not to be a part of it because they knew that at this point I was bucking up against things, and they did not want me to be—they did not want to worry about me facing the media. One of the things that I had the biggest challenge with was that the students that they knew that had discrepancies at that campus were to be whisked away into the Financial Aid Office for whatever purpose so that they would not have access to the media, because they did not want these disgruntled students—maybe they were having trouble out in their internships or finding careers as they neared graduation, or had instances on the campuses—they did not want them to have access to the media.

To me, when you are trying to kind of put a gag order on your students, something is seriously wrong. When you do not want

your students to be able to talk about their experience and all you want is this rosy experience that everything is great, something is greatly wrong with that campus.

Mr. HINOJOSA. Thank you for your response.

With that, Mr. Chairman, I yield back.

Chairman BOEHNER. The Chair recognizes the gentleman from California, Mr. Miller.

Mr. MILLER. Mr. Chairman, I ask unanimous consent that a statement or a letter to you and to me from Mr. Jeff Fager who is the executive producer of 60 Minutes be included in the record at this point, if there is no objection.

[The information referred to follows:]

**Letter from Jeff Fager, Executive Producer, 60 Minutes, Submitted for the Record**

Mr. Chairman, Ranking Member and Members of the Committee:

I am writing in response to testimony offered by Mr. Nick Glakas before your committee in which he attacks our 60 MINUTES report entitled "An Expensive Lesson." He claims that the report, which focused on the business practices of for-profit schools, was unbalanced and misleading in presenting critical facts.

Please know, that our team spent four months reporting this story. The producers spoke to 102 students, former employees and teachers. All but two confirmed the thrust of our report. Students told us admission counselors subjected them to high-pressure sales tactics in order to get them to enroll and sign up for tens of thousands of dollars in student loans to pay for tuition. They also said they were misled about job placement and employment opportunities upon graduation. The "admissions counselors/sales representatives" told us they were pressured to admit as many students as possible and teachers said they were pressured to pass unqualified students in order to maximize revenue. We found evidence to back up these allegations when we sent our associate producer to go through the enrollment process.

We made every effort to speak with representatives from Career Education Corporation (CEC) on-camera. They denied those repeated requests. Therefore, we sought out Nick Glakas to respond to some of the allegations. He told us that he was unaware of the allegations and assured us that any unethical behavior on the part of CEC or other for profit educational entities was isolated and not indicative of the industry as a whole. Those comments were included in our report.

In CBS's view, the accusations set forth by Mr. Glakas are without merit. In fact, you should be aware that in the days following our report, the team who reported this story, received hundreds of e-mails and phone calls from current and former students and employees of for-profit schools, including Brooks College, which corroborated our reporting.

Sincerely,  
Jeff Fager

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Chairman BOEHNER. Without objection.

Mr. MILLER. Finally, Mr. Chairman, I want to again thank you for having this hearing.

And, Ms. Dorsey, I want to thank you for your testimony here. I became a fan, actually, of the proprietary schools when I read a long piece in the Wall Street Journal a number of years ago about one of the more successful proprietary schools, and when they interviewed everybody from the traditional education establishments, they were all very critical of it. They all suggested this was not a real education. The only people who liked the school were the people who were attending it. I actually went down and met and tried to figure out what was going on in that situation, because the question of how this opportunity was going to be measured, obviously, some did not like the competition.

But I have to tell you this, that the statements that you have made here before the Committee and the examples that you have cited and that Ms. Waters has cited and I think, to some extent, that have been found in some of the work of the inspector general, when I talked to many, many people in this field who run all different kinds of schools, all different kinds of careers in the health field, technology field, people who are rolling up these institutions and becoming larger corporations than the rest of them, none of them deny that the examples that you mentioned are taking place, and all of them suggested, some of them suggested flat out that these schools should be closed. Whether or not we will get to the bottom of it or not or whether or not the industry will police itself or whether or not this Congress will decide that there has to be some new set of standards here, obviously, most people have told us before we had this hearing that the New York Department of Education, how they run their education from top to bottom is far different than what is going on in other areas of the country. In some cases, you just file a business plan; you do not file an education plan. You get a business license, and you open your doors.

What I worry about is that there is—each one of these students is worth something. And we saw when we went into the first iteration of health care, HMOs, and the business pages were full of whether or not people could get cachement area, could they expand their cachement area? Could they get enough senior citizens to come in? Some were promised hearing aids and prescription drugs and free eyeglasses and all of the rest of it. Many of them went bankrupt. Many senior citizens did not get health care. Many got stuck with the bill in many instances, and I just think we ought to avoid that wherever we can.

Because I believe that in fact we need this sort of multi-layered approach to educational opportunity in this country. But I believe whether it is at the community college or whether it is at USC in Los Angeles or Cal Berkeley or it is a proprietary school, a non-profit, however, you want to classify them, that it ought to be on the level for that person walking through the door. Because, in many instances, they are walking through the door with a loan and not much else in their hand, and there ought to be some assurances that this institution is on the level. And we ought to set down that criteria. It is not that everybody who graduates from a school of higher education gets a job, because that just does not happen no matter where you graduate from. But there ought to be some matching between the representations made and your prospects of reaching those.

And I just have to tell you that I have talked to enough people in this field and, again, in all different types of career offerings and educational offerings, that leads me to suggest that this is not all foreign, this is not a surprise; nobody in the industry was surprised by 60 Minutes. Nobody in the industry likes 60 Minutes. Nobody in politics likes 60 Minutes when they turn their guys on the Congress. None of us, you know, have said, "Well, that was a good story." but not a lot of Members are surprised sometimes when we see stories about the Congress or one of our programs or whatever else; we are not surprised. Most of us were damn glad it did not happen to us, and that is what I sense is going on here.

We have an opportunity in the Higher Education Act, I think, to make some improvements. Some of them have been recommended by the IG; some of them will be recommended by Members of the Congress. What deeply concerns me is that we appear to be on kind of a wholesale track here to get rid of the existing protections that were put there for very valid reasons. So anybody who would like to go back and read the record of the witnesses in those hearings, they were put there for a reason, and I think the IG is suggesting to us they have had some positive impact. Maybe he cannot measure it down to how many cases, and we ought to be very careful before we eliminate them or even replace them with something else, we ought to understand what we are trying to do.

I want to thank all of you for your participation in this hearing. I think we have some additional work to do. Otherwise, I think we are going to be back here revisiting this subject more often than we would like and more often certainly than the taxpayers or those students would like us to be revisiting it.

Thank you, Mr. Chairman. I thank you for responding to this hearing in a very timely fashion.

Ms. WATERS. Mr. Chairman, may I make a request of you?

Chairman BOEHNER. Yes.

Ms. WATERS. We have a whole host of students who have filed complaints against Corinthian, and I guess they are the owners of the Bryman chain. And they have declarations under penalty of perjury that they have filed with the department, and they cannot get an answer or an investigation going. I would like to ask this Committee to request of the department to please respond to those declarations that have been filed by a host of students against Corinthian.

Chairman BOEHNER. We will look into it.

Mr. HINOJOSA. Mr. Chairman?

Chairman BOEHNER. Mr. Hinojosa.

Mr. HINOJOSA. I ask for unanimous consent that my official statement for the record be accepted. I came in a bit late.

[The prepared statement of Mr. Hinojosa follows:]

**Statement of Hon. Ruben Hinojosa, a Representative in Congress from the State of Texas**

I would like to thank the Chairman for calling this hearing. We must not be complacent when it comes to the integrity of our system of higher education and student financial assistance. We have an obligation to safeguard the federal investment in postsecondary education as well as protect students from unscrupulous practices that can result in personal and financial devastation.

In the Financial Services Committee, we often discuss ways to eliminate the practice of predatory lending. In the Education and the Workforce Committee, we have worked to eliminate the practice of “predatory student lending.” We did this by putting safeguards in our student aid programs that banned practices such as incentive compensation, required institutions to have diversified sources of funding outside of the student programs, and put in place rules and definitions that recognize that for-profit corporations operate under a different set of business goals and practices than not-for-profit and public institutions. As we have learned from the 60 Minutes report and recent federal investigations of the for-profit sector, the need for these safeguards has not passed.

I am concerned that H.R. 609 moves us away from protecting the integrity of our student aid programs.

Not only does H.R. 609 retreat from integrity protections against fraud and abuse in the student aid programs, it also opens up all of the grant programs in the Higher Education Act to proprietary institutions. In particular, it would make private

businesses eligible for developing institutions grants, such as those designated for Hispanic-Serving Institutions (HSIs). Opening the developing institutions program to private businesses would further dilute the small funding stream designated to serve a growing pool of colleges and universities. HSI grants should be reserved for institutions that have a long-term commitment to serving the community and not to those whose primary responsibility is to shareholders or individual owners. Private businesses can move at any time to an area that is deemed to be more profitable. HSIs build capacity for the entire Hispanic community.

In closing, it is my hope that this Committee will move forward with great caution and not fall prey to a glitzy sales pitch to remove the protections that have served the nation well. We must not confuse certain companies' goals to maximize enrollment and increase the bottom line, with our goal of expanding access to higher education and safeguarding the integrity of our student aid programs.

Chairman BOEHNER. Without objection.

Mr. Andrews.

Mr. ANDREWS. Mr. Chairman, I would just ask the Chairman's permission to just ask one more thing from the IG witness, that he might provide us with some data. Would that be OK, Mr. Chairman?

Chairman BOEHNER. That would be fine.

Mr. ANDREWS. With respect to the impact of the 90/10 rule, I think—I am hearing a consensus today that we want the most effective anti-fraud measures available. What we do need to do—I also heard you, Mr. Carter, talk about being careful to understand the impact of rules, and I would ask you to provide us with data on two questions about the 90/10 rule.

The first is that the department has compiled data about loan defaults, the aggregate number, the types of schools the students went to and so forth. I would be interested as to whether there is any correlation between high loan defaults and schools that are close to the 90/10 border. In other words, if a school is deriving, you know, 12 percent of its revenue other than from Federal financial aid, are the students from that school more or less likely to have loan defaults? What do the data show?

And then, second, if you could, I would like to know any data on the types, the profiles of students, the demographic profiles of students who are turned away, not accepted, not enrolled in schools as a result of the 90/10 rule, any information we could have about what that subset of student applicants looks like.

Mr. Chairman, I appreciate that very much.

Chairman BOEHNER. Thank you.

Mr. CARTER. Mr. Chairman, if I may, earlier, Mr. Glakas made a comment about the lack of any information on any convictions or indictments and so on of school officials or their owners. And I just would request permission when I am providing the other information to Mr. Andrews to provide that information. It is published every 6 months in our semi-annual report, and we would be glad to summarize the last few years and provide it for the record.

Chairman BOEHNER. Great.

I just want to thank the witnesses for your willingness to come today. The Higher Education Act was enacted in the mid-1960's to provide access for low- to moderate-income students. And you know, in 1990, aggregate spending was probably about \$10 billion a year. As Mr. Miller noted earlier today, the Federal Government

spends almost \$80 billion a year to try to provide access to low- and moderate-income students.

There has been some question about some of the provisions in our proposal for the reauthorization of the Higher Education Act. When it comes to the definition of institution, we, in our effort to try to provide access, if the student qualifies for a Pell grant, we allow that student to choose where they want to go to school, whether it be a private university, a public university, or a for-profit university. When we provide access to a student loan, that student can take that loan amount that they are entitled to borrow to a private university, a public university, or to a for-profit university. And when it comes to programs that primarily benefit students, they should not be discriminated against regardless of the institution they want to go to.

Again, for programs that primarily benefit students, we should not deny them the access to make the same choice that we do with Pell grants and with student loans.

Now, when it comes to the issue of 90/10, I think all of us realize, in the early 1990's, there were a host of accountability provisions put in place. One of the most important provisions put in place was not 90/10. It was the fact that if a school were to be qualified for the Title IV programs, the loan programs and for Pell grants, that they had to be accredited by an accrediting organization as recognized by the Secretary of Education. That, I think, in and of itself, has done more to eliminate many of the abuses that we used to see in the industry. And while 90/10 is an accountability tool, I am not sure in and of itself it is meeting the requirements that we intended it to make.

Furthermore, I think it actually penalizes, penalizes low-income students in inner cities all across America who do not have access to postsecondary education or training.

Now, I am interested in what Mr. Carter will provide to the Committee, but if 90/10, in my view, is not working and penalizing access to institutions, I am open to what other types of accountability provisions that we can replace it with that will not hurt students, but will help keep bad operators out of the loan programs.

So there is an awful lot that I think we can accomplish, but our goal here is access. Access for American students who need more access to postsecondary education and training because if they are going to be all they can be and have a shot at the American dream, they ought to have the opportunity to do so at an institution where they are going to get a high-quality education.

I might make one more point. I have a daughter; I have two daughters. But one of my daughters went for 2 years at a State University in Ohio, decided it was not her thing, came home, worked for a little while and decided to go to a for-profit school and went there for 2 years. I can tell you this happened, I guess, about a year-and-a-half ago. She graduated. She is gainfully employed. I am very happy about that. And she owns her own condo. She owns her own car. She has a very good job that she was trained for.

So while there are all of these horror stories or some horror stories that might exist, we should not paint the entire industry with a broad brush that they are not getting the job done. And when we look at the training that is being done for the workforce of the 21st

century, I think a lot of our schools in a profit and not-for-profit sector are doing a good job for our country.

Mr. MILLER. Mr. Chairman, if I just might, we share a common experience. I have recommended a number of my dearest friends and my neighbors, for their young, for their young adults to go to a number of for-profit, nonprofit organizations—excuse me, proprietary organizations for their education, and it has turned out to be wildly successful for those individuals, and that is exactly the point. That is the experience we would like all of these young people to have.

Now, unless these schools are wildly in violation of 90/10, they are not having any trouble getting students out of Maxine Waters' district or out of my district or out of many other areas, so there is some inconsistency here about what this limitation is in terms of the denial of opportunity to poor and minority students, because the evidence seems to be otherwise.

Chairman BOEHNER. As the debate continues, with the reauthorization of the Higher Education Act, I want to thank all of you for coming today. This hearing is adjourned.

[Whereupon, at 4:25 p.m., the Committee was adjourned.]  
[Additional material submitted for the record follows:]

**Statement of Hon. Jon C. Porter, a Representative in Congress from the State of Nevada**

Thank you, Mr. Chairman, for holding this important hearing on the enforcement of anti-fraud laws in for-profit education. I appreciate the opportunity to hear more about the situation facing our students and educators in the for-profit education field. I thank our distinguished panel of witnesses for appearing today and look forward to their expert testimony.

Because of the dynamic nature of our economy today, we must provide the students of this nation with the resources they require to actively engage what has become known as the knowledge based economy. Our higher education system must adapt as we seek to provide workers with the tools and knowledge they need to compete with our ever-changing economy. One important tool in this adaptation is the for-profit post-secondary school. These institutions provide America's workforce with the necessary tools to improve their career potential.

Recently, the institutions have come under attack for the improper actions of some in this field. Our committee, and this Congress, have a responsibility to protect the nation's students from groups that would seek to take advantage of those individuals seeking to improve themselves. I am glad that our committee has provided a forum for us to better understand current laws that protect our students, and the ability of government to enforce those laws.

As we seek to provide the best opportunities for post-secondary education in this nation, we must ensure that the finances of our students and governments are protected as soundly as possible. I look forward to the testimony of our witnesses today, and wish to again thank the Chairman for providing this opportunity to better educate ourselves as we look forward to reauthorization of the Higher Education Act.

